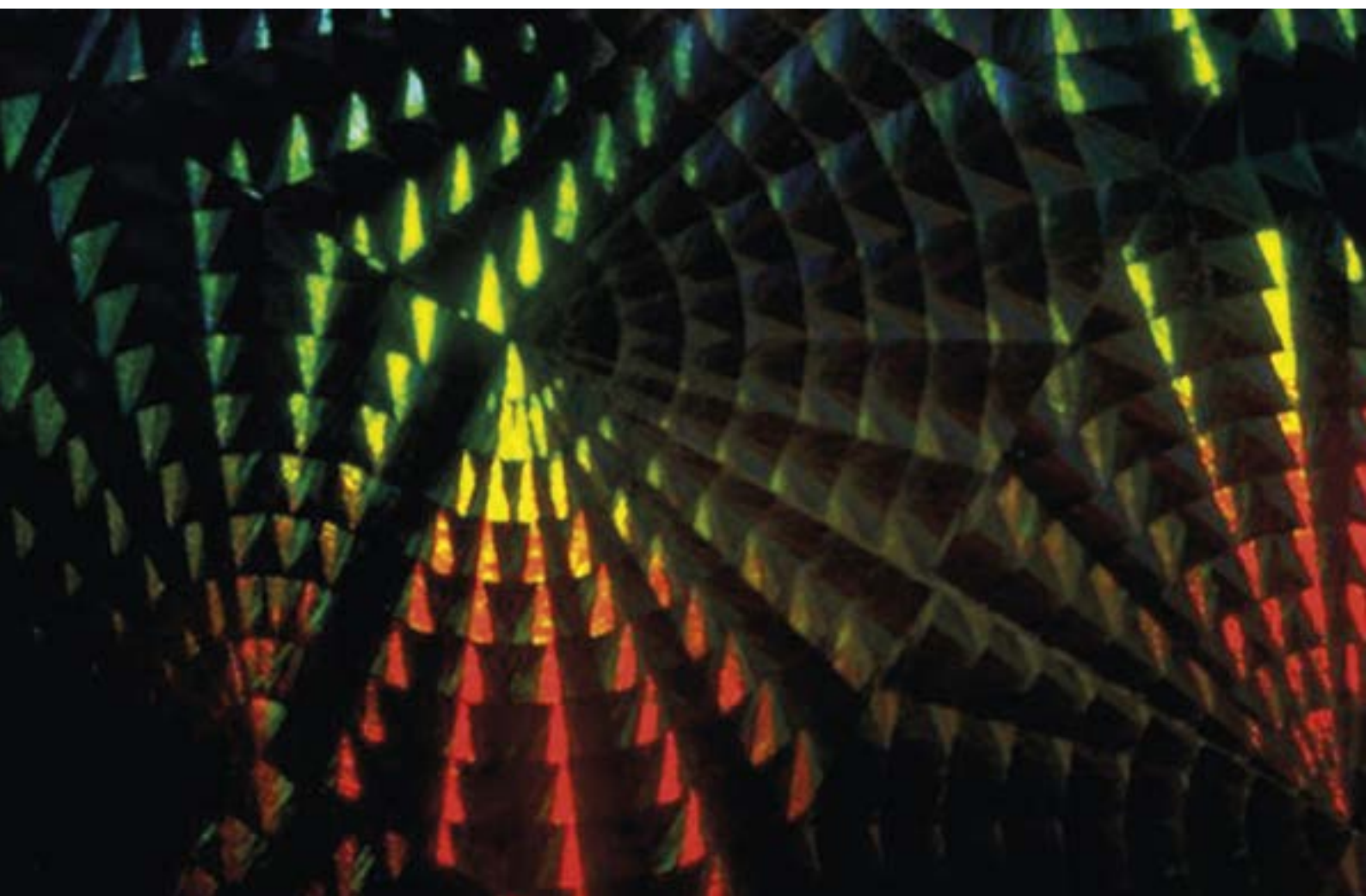




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# Analysing the impact of the UK Government's welfare reforms in Wales – Stage 2 analysis



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- Audience** This report has been produced primarily for the Welsh Government's Ministerial Task and Finish Group on Welfare Reform (the group includes the Minister for Education and Skills; the Minister for Local Government and Communities; the Minister for Housing, Regeneration and Heritage; the Deputy Minister for Children and Social Services) and relevant policy and analytical officials.
- Overview** This report includes the analysis that has been undertaken internally by Knowledge and Analytical Services (Welsh Government) as part of Stage 2 of the Welsh Government's programme of research to assess the impact of the UK Government's welfare reforms in Wales. The remainder of the Stage 2 analysis has been undertaken externally by the Institute for Fiscal Studies and can be accessed via the following link:  
[www.wales.gov.uk/educationandskills](http://www.wales.gov.uk/educationandskills)
- Action required** None – for information only.
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- Additional copies** This document can be accessed from the Welsh Government's website at [www.wales.gov.uk/educationandskills](http://www.wales.gov.uk/educationandskills)

# Contents

|   |           |
|---|-----------|
| <b>List of acronyms</b>   | <b>2</b>  |
| <b>Summary of the key findings</b>  | <b>4</b>  |
| <b>Introduction</b>   | <b>12</b> |
| <b>Estimating the direct effects of the main welfare reforms on household incomes in Wales</b>                              | <b>14</b> |
| <b>Wider economic and social impacts of welfare reform and potential implications for devolved public services in Wales</b> | <b>30</b> |
| <b>Conclusions and next steps</b>   | <b>79</b> |
| <b>References</b>   | <b>83</b> |
| <b>Annex: Distributional impact of public services</b>  | <b>94</b> |

## List of acronyms

|       |  |
|-------|--|
| AME   | Annually Managed Expenditure                   |
| BIS   | Department for Business, Innovation and Skills |
| CAB   | Citizens Advice Bureau                         |
| CB    | Child Benefit                                  |
| COSLA | Convention of Scottish Local Authorities       |
| CTB   | Council Tax Benefit                            |
| CTC   | Child Tax Credit                               |
| CPI   | Consumer Price Index                           |
| DEL   | Departmental Expenditure Limits                |
| DHP   | discretionary housing payments                 |
| DLA   | Disability Living Allowance                    |
| DPDP  | direct payments demonstration project          |
| DWP   | Department for Work and Pensions               |
| ESA   | Employment and Support Allowance               |
| FSM   | free school meals                              |
| HB    | Housing Benefit                                |
| HMRC  | Her Majesty's Revenue and Customs              |
| IB    | Incapacity Benefit                             |
| IFS   | Institute for Fiscal Studies                   |
| ILF   | Independent Living Fund                        |
| IS    | Income Support                                 |
| JSA   | Jobseeker's Allowance                          |
| LA    | local authority                                |
| LHA   | Local Housing Allowance                        |
| MIF   | Minimum Income Floor                           |
| NAO   | National Audit Office                          |
| NEET  | not in education, employment or training       |
| OFT   | Office of Fair Trading                         |

|      |                                    |
|------|------------------------------------|
| ONS  | Office for National Statistics     |
| PIP  | Personal Independence Payment      |
| RPI  | Retail Price Index                 |
| RSG  | Revenue Support Grant              |
| SC   | skills conditionality              |
| SMI  | Support for Mortgage Interest      |
| UC   | Universal Credit                   |
| WCA  | Work Capability Assessment         |
| WLGA | Welsh Local Government Association |
| WRAG | Work-Related Activity Group        |
| WTC  | Working Tax Credit                 |

## Summary of the key findings

- The Welfare Reform Act 2012 introduces the greatest changes to welfare benefits in 60 years. The reforms announced in 2010 are estimated to save over £18 billion by 2014–15 (around 8 per cent of the UK budget for social security benefits and tax credits). In addition, further welfare cuts have been announced in the Autumn Statement 2012, which amount to £3.7 billion by 2015–16.
- In order to get a better understanding of the impact of these cuts in Wales, the Welsh Government's Ministerial Task and Finish Group on Welfare Reform has commissioned a three-stage programme of research. The Stage 1 research was published on the Welsh Government's website in February 2012.
- This report, produced by the Welsh Government, forms part of the Stage 2 research and covers the following areas:
  - estimated direct effects of the main welfare reforms on household incomes in Wales
  - wider economic and social impacts of welfare reform and potential implications for devolved public services in Wales.
- The remainder of the Stage 2 research has been undertaken externally by the Institute for Fiscal Studies (IFS). The findings from this research can be found in *An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales* by Adam and Phillips (IFS, 2013). The report can be accessed via [www.wales.gov.uk/educationandskills](http://www.wales.gov.uk/educationandskills)

### **Estimated direct effects of the main welfare reforms on household incomes in Wales**

- For the welfare reforms analysed, the largest potential estimated impacts in Wales as a direct result of the announced policy changes are as follows<sup>1</sup>.
  - Around 350,000 working-age benefit claimants and 330,000 families in receipt of tax credits have already incurred, and will continue to incur, income losses as a result of the switch to up-rating most benefits by the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Total annual income losses in Wales are estimated to be £90 million in 2011–12 increasing to around £600 million in 2015–16. This is by far the largest impact in terms of the scale of income lost.

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<sup>1</sup> Note: Figures may not sum due to rounding.

Furthermore, there will be an additional negative impact on incomes in Wales (around £113 million in 2015–16) as a result of the recently announced decision to up-rate most working-age benefits, certain elements of tax credits (both from 2013–14 to 2015–16), and Child Benefit (CB) (from 2014–15 to 2015–16) by 1 per cent rather than prices. However, the impact of this cap will depend crucially on the out-turn for inflation over the next few years.

- Approximately 42,500 claimants are estimated to lose their entitlement to Disability Living Allowance (DLA) by May 2018, equivalent to around £55–83 per week on average in Wales. This amounts to a total annual income loss in Wales of £122–183 million by 2018–19.
- Around 56,000 claimants are estimated to have their benefit income reduced by up to £89 per week as a result of the time-limiting policy for contributory Employment and Support Allowance (ESA). The total annual income loss in Wales could potentially be around £132 million by 2015–16.
- Further negative impacts, albeit on a smaller scale, include the following.
  - Over 48,500 Housing Benefit (HB) recipients are estimated to have lost £9 per week on average from the April 2011 reforms, amounting to an annual loss in Wales of £23 million.
  - Around 370,000 families and 640,000 children are likely to be affected by the freezing of CB rates for three years from 2011–12. Average weekly losses per family are estimated to be around £2.50 in 2013–14, amounting to a total annual loss of £47 million in Wales.
  - Over 3,000 HB recipients are likely to have been affected by the change in the age threshold for the shared accommodation rate, losing around £24 per week. The total annual loss in Wales is estimated to be £4 million.
  - One thousand two hundred claimants are estimated to have been affected by the abolition of youth provisions under contributory ESA, with average weekly losses per claimant likely to be around £25. In total, ESA youth payments in Wales are estimated to be reduced by around £1.7 million by 2015–16.
  - The increase in the working hours rule for couples with children and the removal of the second income threshold that form part of the changes to tax credits are estimated to have an impact on approximately 9,400 and 43,500 households

- respectively, with maximum weekly income losses per household of around £74 and £10. Likewise, annual losses in Wales are expected to be up to £36 million and £24 million.
- The extension of Lone Parent Obligations in May 2012 will have affected lone parents claiming Income Support (IS) with a youngest child aged 5 or 6, with the majority expected to move on to Jobseeker's Allowance (JSA). In February 2012, there were around 5,000 lone parents in Wales in that category. It is estimated that up to 1,250 affected lone parents in Wales could move into work given the increased focus on work preparation and obligations to look for work.
  - Around 31,000 families in Wales are expected to incur income losses of £25 per week on average as a result of the taper rate applied to CB. A total annual income loss of £41 million in Wales could result.
  - The April 2013 HB reforms will increase Local Housing Allowance (LHA) rates by CPI rather than actual rents and will cut the amount of benefit paid to claimants under-occupying socially rented properties. Average weekly losses per person are estimated at £6 and £12 respectively, with annual losses in Wales totalling £40 million. A further change will be made to the up-rating policy for LHA rates from 2014–15 for two years. This will involve the increase in rates being capped at 1 per cent.
  - Around 1,500 households in Wales are estimated to have their benefit income reduced by around £70 per week on average as a result of the Household Benefit Cap in 2013–14. The total annual income loss in Wales is anticipated to be around £5 million.
  - Programme funding for those elements of the Social Fund that are being transferred to the Welsh Government is estimated to be reduced from £11.7 million in 2011–12 to £10.2 million in 2013–14 and 2014–15, while need is expected to increase.
  - The UK Government will devolve responsibility for providing support for low-income families with their council tax and will cut funding by 10 per cent from 2013–14. However, the Welsh Government will be making up the shortfall in funding for council tax support in Wales in 2013–14 ensuring that those people eligible for support will continue to receive their full entitlement.
  - Overall, Universal Credit (UC) is expected to increase household incomes in Wales by £22 million (excluding transitional protection) in 2014–15. However, this is significantly offset by the income losses estimated from the other welfare reforms.



- The findings outlined above are intended to provide an indication of the number of claimants that could potentially be affected by each of the main welfare reforms and the estimated direct income losses in Wales. The analysis is not intended to provide an aggregate figure of the loss to household incomes in Wales as a result of the cumulative impact of the welfare reforms. Therefore, it would be inappropriate to simply sum each of the estimated income losses from individual reforms, partly because they are not based on prices from the same year (given the varying timescales for the introduction of the reforms) and also because the analysis is partial. However, as part of the externally commissioned Stage 2 research, Adam and Phillips (2013) have assessed the aggregate impact of the majority of the welfare reforms announced before December's Autumn Statement on household incomes in Wales and estimate that there will be a direct loss of income of around £590 million in 2014–15. This equates to around £7.26 per family per week on average<sup>2</sup>, roughly 1.5 per cent of their net income. The analysis by Adam and Phillips (2013) is not directly comparable with that contained in this report as the coverage of the analyses differ as do some of the assumptions made and data sources used. Both analyses should be treated as indicative.
- Adam and Phillips (2013) also report that the biggest average losses from the welfare reforms are expected to be experienced by low–middle income families in Wales. By family type, overall, the biggest average losses are likely to be incurred by non-working families with children. Pensioners, and families without children in which all adults work, will be largely protected from the cuts. Furthermore, additional analysis by Crawford, Joyce and Phillips (2012) suggests that the benefit cuts will hit Wales slightly harder than the UK as a whole due to its higher levels of welfare dependency.

### **Wider economic and social impacts of welfare reform and potential implications for devolved public services in Wales**

- As summarised above and identified in the Stage 1 Report and the externally commissioned research undertaken by Adam and Phillips (2013), the UK Government's welfare reforms will have far-reaching impacts for benefit claimants, particularly low–middle income households and non-working families with children. As a result, there are expected to be implications for the devolved public services that support them.

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<sup>2</sup> This average loss has been calculated for all households in Wales rather than just those households directly affected by the welfare reforms.

- The welfare reforms could potentially have a direct negative impact on claimants' **health** via a reduction or loss of benefit income due to tighter eligibility criteria, conditionality requirements and tougher sanctions; increased poverty levels; new, uncertain and stricter medical assessments; appeals and reassessments; budgeting problems associated with direct, monthly benefit payments; the migration of claimants into cheaper, poorer-quality and possibly overcrowded housing; and a combination of less financial resource and increasing demand for support from the Social Fund and Independent Living Fund (ILF). There may also be indirect income effects on entitlement to a number of health-related passported benefits. These impacts are likely to lead to increased pressure on health services in Wales. However, if the reforms are successful in getting people into work, these negative impacts will be counteracted (to some extent) by the positive effects on health that are associated with employment. Transitional protection will also soften the blow for some claimants.
- Given the relationship between low income, poverty, and demand for social care, the effects of welfare reform may place **social care services** in Wales under increased pressure, especially in the longer term. In particular, informal carers may be further relied on as claimants lose some or all of the financial support and services they once relied on. For those who are forced to migrate to cheaper areas, this may result in the loss of informal support networks and disruption to formal care delivery. This migration effect will impact on the distribution of service needs across Wales with some areas (particularly those that are deprived) facing increased demand. Foster carers are also expected to be negatively impacted due to the new under-occupancy rules in the social rented sector. Funding cuts to the ILF will further add to these problems. However, as with health, employment effects could have a positive impact on service needs and demand.
- Potential impacts on **housing** services relate to housing affordability, rent arrears, evictions and homelessness due to benefit cuts, direct and monthly payments, and sanctions, which may create budgeting problems. Although time-limited transitional protection and an increase in discretionary housing payments (DHP) will be available, the latter is small in scale compared to the extent of the HB cuts. In addition, funding available via Support for Mortgage Interest (SMI) will be reduced. As a result, landlords may incur additional costs in rent collection

and managing tenancies, and may face increased pressure to reduce rent levels resulting in lower incomes from their properties. There is also a risk of a reduction in properties let to HB claimants in the private rented sector, and there may be a particular shortage of suitable properties for those affected by the extension to the Shared Accommodation Rate and the under-occupancy rules. Families may be forced to cheaper (and already deprived) localities leading to increased housing pressures in these areas, particularly for bed and breakfast and temporary accommodation where supply is unable to meet demand. This may give rise to overcrowding and residence in poorer-quality housing. However, there may be some offsetting positive impacts such as claimants seeking employment to make up shortfalls in rent and a potentially more efficient use of social housing given the under-occupation rules.

- **Educational outcomes** may also be affected by the welfare reforms. As well as the potentially negative effect of reduced income and increased poverty on educational outcomes, the migration effects that may result from the HB reforms may have particular consequences for access to high-performing schools (and their associated positive educational outcomes), continuity of educational provision, and pressure on school places. There may also be detrimental impacts on educational attainment for those families who lose entitlement to free school meals (FSM). However, at the same time, some families may gain entitlement to education-related passported benefits. Skills provision, careers information, advice and guidance, and student finance are other services and budgets that may be affected. With regards to the impact of DWP's welfare-to-work programme, commentary by the National Audit Office (NAO) suggests that performance to date has been much lower than the minimum requirement for the programme and DWP's core expectation. Skills conditionality (SC) has also been introduced in Wales. Although this may lead to an increase in benefit sanctions due to non-compliance, in some cases it may enhance employment prospects.
- In terms of **economic development**, the key impacts relate to household income (from benefits/tax credits and earnings), expenditure, employment, self-employment and economic output. Adam and Phillips (2013) estimate that the UK coalition government's welfare reforms announced before December's Autumn Statement will reduce total benefit and tax credit

entitlement in Wales by around £590 million (or £520 million if UC is included). However, the same study predicts that improved work incentives will have a positive, albeit modest, impact on labour supply in Wales (e.g. central estimate: working-age employment +0.3 percentage points or around 5,000 people and aggregate gross earnings +0.5 per cent or £149 million), although there remains a great deal of uncertainty regarding the size of this impact. Labour demand will be an important influence on outcomes, particularly in the short-term. The self-employed, particularly the low paid, will be affected by major changes under UC. Specifically, established self-employed claimants will be assumed to earn at least a minimum income level set by the Department for Work and Pensions (DWP), which (rather than actual earnings) will be used to calculate claimants' UC awards. There will also be administrative burdens from monthly income reporting requirements. These changes could possibly increase the demand for Welsh Government business support services, particularly financial support. There is also the possibility of negative spill-over effects from the welfare reforms on the employment and wages of people who are not directly affected by the reforms. Further wider economic impacts may be caused by changes in spending (by those whose income is affected directly through changes in entitlements, via changes in employment and hours of work, or via spill-over effects). For example, the Office for Budget Responsibility (OBR) estimates that policy changes that have a direct effect of reducing welfare spending by 1 per cent of Gross Domestic Product (GDP) (such as those implemented or due to be implemented by the UK coalition government) will lead to a reduction in GDP of 0.6 per cent in the short run. However, other estimates by the International Monetary Fund (IMF) and also US-based studies of periods of economic weakness suggest that the multiplier effects may be even larger.

- **Communities and Social Justice** services and budgets may be affected as a result of possible negative impacts of the welfare reforms on poverty, financial inclusion, benefit/debt advice (which will also be affected by the UK Government's changes to legal aid), crime, antisocial behaviour, domestic abuse, and digital inclusion. There may also be increased pressure on the successor to the Social Fund in Wales given that the budget that will transfer to the Welsh Government will be reduced in 2013–14 and then frozen in 2014–15 rather than growing year-on-year while need is expected to increase. However, there may be some positive impacts via improved work incentives and subsequent moves into the labour market.

- There will be a number of consequences for **local government** services and budgets in Wales. These include a likely increase in demand for services such as welfare rights and information, online claiming assistance, debt advice and debt recovery/eviction, budgeting support, employment support, and applications for benefits and other financial support (e.g. DHP). As well as this increased demand, there is also the impact of reduced funding streams including for the establishment of a new council tax support scheme. However, the Welsh Government has recently announced that it will make up the shortfall in funding transferred from the UK Government for council tax support in 2013–14. Although the new scheme could increase the financial risk faced by local authorities (LAs), it may also lead to some desirable effects such as promoting employment and growth in the local economy. In addition, there will be other direct operational impacts for LAs that are associated with the changes to HB under UC.

## Introduction

The Welsh Government's Ministerial Task and Finish Group on Welfare Reform<sup>3</sup> has commissioned a programme of research to analyse the impact of the UK Government's welfare reforms in Wales, with the aim of providing evidence to assist with future decision making. The results of this research will be used to help target the Welsh Government's efforts to mitigate (where possible) any negative implications of welfare reform, and to continue to prioritise resources to reduce poverty in Wales, thereby contributing to the commitments made in the Programme for Government.

The findings from Stage 1 of this research programme were published in February 2012 and justified many of the Welsh Government's concerns about the scope and scale of the changes that the UK Government is driving through within their wider welfare reform agenda. Since then, the UK Government's Welfare Reform Bill has received royal assent, legislating for the biggest changes to the welfare system for more than 60 years. Also, the Autumn Statement 2012 has outlined a welfare reform package that will save a further £3.7 billion in 2015–16, adding to measures announced in 2010 that will save £18 billion<sup>4</sup> from welfare spending by 2014–15. For those changes that have already been implemented, evidence is becoming available on their early effects. Meanwhile, the Stage 2 research has progressed and was completed in December 2012. This consists of the four interrelated elements listed below, which have been undertaken via a combination of internal and external research. The internal research (included in this report) covers elements 1, 2 and 3. In addition, the Welsh Government commissioned the Institute for Fiscal Studies (IFS) to undertake research into element 4, with some coverage also given to research elements 1 and 3.

The externally commissioned research can be found in *An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales* by Adam and Phillips (2013) which can be accessed via [www.wales.gov.uk/educationandskills](http://www.wales.gov.uk/educationandskills)

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<sup>3</sup> Includes the Minister for Education and Skills; the Minister for Local Government and Communities; the Minister for Housing, Regeneration and Heritage; and, the Deputy Minister for Children and Social Services.

<sup>4</sup> This excludes the cost of UC in Great Britain, estimated at £2 billion.

## **Stage 2 analysis**

1. Estimated direct effects of the main welfare reforms on household incomes in Wales.
2. Potential social impacts of welfare reform and implications for devolved public services in Wales.
3. How the reforms are likely to change expenditure patterns and further consideration of the wider economic impacts.
4. Impact of the welfare reforms on labour supply in Wales.

# Estimating the direct effects of the main welfare reforms on household incomes in Wales

The Welfare Reform Act 2012 introduces the greatest changes to welfare benefits in 60 years. The reforms announced in 2010 are estimated to save around £18 billion<sup>5</sup> by 2014–15 (around 8 per cent of the UK budget for social security benefits and tax credits). In addition, further welfare cuts have been announced in the Autumn Statement 2012, which amount to £3.7 billion by 2015–16. Details of the main reforms are included in **Table 1** (page 18). They range from a change in indexation from the RPI to the generally lower CPI with a cap of 1 per cent from 2013–14 for three years, reductions in HB, time-limiting receipt of contributory ESA to one year for those in the work-related activity group (WRAG), tighter eligibility criteria for tax credits, an affluence test for CB, replacement of DLA with a stricter Personal Independence Payment (PIP), the introduction of UC, a monthly payment per household replacing six of the main means-tested working age benefits and tax credits, and a Household Benefit Cap set on the basis of average take-home pay for working households. In addition, there has been a transfer to the Welsh Government of administrative and financial responsibilities regarding successor arrangements for Council Tax Benefit (CTB) and the discretionary elements of the Social Fund.

This section presents data from impact assessments produced by the DWP and HM Revenue and Customs (HMRC) on the UK Government's welfare reforms. In assessing potential impacts DWP and HMRC have compared a scenario with a specific new measure in place, for example PIP, to one where this reform had not been implemented, for example continuation of DLA. The impact assessments do have their limitations and therefore the analysis of impacts presented in this paper should be treated as indicative. In addition, data is not available on the potential impact of all of the welfare reforms in Wales. Due to the incomplete nature of the data, a number of assumptions have been made in this analysis. Estimates are rounded as appropriate and relate to the impacts on individuals/households affected by each of the benefit changes.

The analysis below is intended to provide an indication of the numbers of claimants that could potentially be affected by **each** of the main welfare reforms and the estimated direct income losses in Wales. It may be the case that some benefit claimants are affected by multiple policy changes. The analysis is **not** intended to provide an **aggregate** figure of the loss to household incomes in Wales as a result of the cumulative impact of the welfare reforms. Therefore, it

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<sup>5</sup> This excludes the cost of UC in Great Britain, which is estimated at £2 billion.



would be inappropriate to simply sum each of the estimated income losses from individual reforms, partly because they are not based on prices from the same year (given the varying timescales for the introduction of the reforms) and also because the analysis is partial.

As part of the externally commissioned Stage 2 research, Adam and Phillips (2013) have assessed the **aggregate** impact of the majority of the welfare reforms on household incomes in Wales<sup>6</sup> and estimate that there will be a direct loss of income of around £520 million in 2014–15 (or £590 million if UC is excluded). However, the analysis by Adam and Phillips (2013) is not directly comparable with that contained in this report as the coverage of the analyses differ as do some of the assumptions made and data sources used.

Adam and Phillips (2013) also report that the biggest average losses from the welfare reforms are expected to be experienced by low–middle income families in Wales. By family type, overall, the biggest average losses are likely to be incurred by non-working families with children. Pensioners, and families without children in which all adults work, will be largely protected from the cuts. Furthermore, additional analysis by Crawford, Joyce and Phillips (2012) suggests that the benefit cuts will hit Wales slightly harder than the UK as a whole due to its higher levels of welfare dependency.

It is important to note that the DWP, HMRC and IFS assessments of the impact on household incomes have been undertaken using a static model and therefore do not incorporate potential impacts resulting from dynamic behavioural changes. These behavioural effects are highly uncertain and could be both positive, e.g. if employment increases, or negative, e.g. if homelessness increases. These responses will have an impact on the full scale of potential impacts from the reforms. The research by Adam and Phillips (2013) provides a useful insight to the potential labour supply responses to the welfare reforms in Wales.

The analysis below covers changes to the following benefits over the period 2011–2018:

- indexation and up-rating changes to working-age benefits and tax credits
- Housing Benefit (HB)
- Child Benefit (CB)

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<sup>6</sup> This includes welfare costs as well as savings, but excludes the impact of the PIP due to a lack of policy detail and also the welfare changes in the Autumn Statement 2012 as these were announced following completion of the analysis. Full coverage is outlined in Adam and Phillips (2013).

- Contributory Employment and Support Allowance (ESA)
- Disability Living Allowance (DLA)/Personal Independence Payment (PIP) – only those who lose entitlement (i.e. excludes the impact on those who receive higher/lower payments under PIP)
- Council Tax Benefit (CTB)
- Universal Credit (UC)
- Working Tax Credit (WTC)
- Child Tax Credit (CTC)
- Income Support (IS) (lone parents)
- Household Benefit Cap.

## Key findings

- For the welfare reforms analysed, the largest potential estimated impacts in Wales as a direct result of the announced policy changes are as follows<sup>7</sup>.
  - Around 350,000 working-age benefit claimants and 330,000 families in receipt of tax credits have already incurred, and will continue to incur, income losses as a result of the switch to up-rating most benefits by the CPI rather than the RPI. Total annual income losses in Wales are estimated to be £90 million in 2011–12 increasing to around £600 million in 2015–16. This is by far the largest impact in terms of the scale of income lost. Furthermore, there will be an additional negative impact on incomes in Wales (around £113 million in 2015–16) as a result of the recently announced decision to up-rate most working-age benefits, certain elements of tax credits (both from 2013–14 to 2015–16), and CB (from 2014–15 to 2015–16) by 1 per cent rather than prices. However, the impact of this cap will depend crucially on the out-turn for inflation over the next few years.
  - Approximately 42,500 claimants are estimated to lose their entitlement to DLA by May 2018, equivalent to around £55–83 per week on average in Wales. This amounts to a total annual income loss in Wales of £122–183 million by 2018–19.
  - Around 56,000 claimants are estimated to have their benefit income reduced by up to £89 per week as a result of the

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<sup>7</sup> Note: Figures may not sum due to rounding.

time-limiting policy for contributory Employment and Support Allowance (ESA). The total annual income loss in Wales could potentially be around £132 million by 2015–16.

- Further negative impacts, albeit on a smaller scale, are outlined in **Table 1** (pages 18–29).

**Table 1<sup>8</sup>**

| Date policy introduced | Benefit/tax credit  | Policy change  | Estimated (direct) impact in Wales  |  |
|------------------------|---|--|---|--|
|                        |   |  | Individual/household level  | Country level  |
| April 2011             | <b>Affects most benefits, tax credits and public service pensions</b> | <p>1. Switch to indexing almost all benefits, tax credits and public service pensions to the CPI rather than the RPI.<br/><b>Note:</b> there will be an additional negative impact from the recently announced decision to up-rate most working-age benefits and tax credits by 1% for three years from April 2013 (see policy change 16 below).</p> <p>2. Restrict LHA levels to the 4-bedroom rate (5-bedroom rate no longer available), and apply maximum weekly caps:</p> <ul style="list-style-type: none"> <li>• 1-bedroom: £250</li> <li>• 2-bedrooms: £290</li> <li>• 3-bedrooms: £340</li> <li>• 4-bedrooms: £400.</li> </ul> | <p>Analysis by Joyce and Levell (2011) estimates that benefits and tax credits that were formerly indexed to the RPI and the Rossi will be about <b>1.8%</b> and <b>3.1%</b> lower respectively in 2012–13 as a result of the switch to CPI indexation<sup>9</sup>.</p>               | <p>Benefits: number of working-age claimants affected = <b>350,000</b><sup>10</sup>. Tax credits: number of recipient families affected = <b>330,000</b><sup>11</sup>. <b>Note:</b> there will be some overlap between benefit and tax credit recipients.<br/>Total annual loss in Wales = <b>£90 million in 2011–12</b> increasing to around <b>£600 million in 2015–16</b><sup>12</sup>.</p> |
|                        | <b>HB</b>   |  | <p>Average weekly loss per losing recipient in Wales = <b>£34</b>; Great Britain (GB) average = <b>£74</b><sup>13</sup>. (All of the HB impact assessments exclude the impact of claimants gaining from transitional protection and short-term entitlements to DHP<sup>14</sup>).</p> | <p>DWP estimate that the number of LHA recipients in Wales losing money = <b>200</b> (0.4% of all LHA recipients in Wales<sup>15</sup>). However, evidence received from LAs suggests that this figure is 300.<br/>Total annual loss in Wales (based on DWP figures) = <b>£0.4 million</b>.</p>  |

<sup>8</sup> The average losses at an individual/household level are for those **directly affected** by each of the benefit changes rather than **all** households in Wales.

<sup>9</sup> Joyce, R and Levell, P (2011) *The impact in 2012–13 of the change to indexation policy*. A report for the Institute for Fiscal Studies.

<sup>10</sup> DWP statistics for May 2011.

<sup>11</sup> HMRC statistics for 2010–11.

<sup>12</sup> Welsh Government estimate based on Wales' proportionate share of Exchequer savings per annum.

<sup>13</sup> DWP (2010a) *Impacts of Housing Benefit Proposals: Changes to the Local Housing Allowance to be introduced in 2011–12*. Based on March 2010 data.

<sup>14</sup> Transitional protection would have been applied for nine months following the changes to HB in April 2011. The discretionary housing payments fund will be increased across the UK from £20 million in 2010–11 to £30 million in 2011–12, £60 million in 2012–13, £155 million in 2013–14 and £125 million in 2014–15.

<sup>15</sup> In March 2010, there was a LHA caseload of 48,710 in Wales.

| Date policy introduced | Benefit/tax credit | Policy change  | Estimated (direct) impact in Wales  |  |
|------------------------|--------------------|--|---|--|
|                        |                    |  | Individual/household level  | Country level  |
| April 2011             | HB                 | 3. Removing the provision for claimants to retain a maximum of £15 per week where their rent is below the LHA rate.  | Average weekly loss per losing recipient in Wales = <b>£10</b> (GB average = £11) <sup>16</sup> . | Number of LHA recipients in Wales losing money = <b>19,070</b> (39% of all LHA recipients in Wales) <sup>17</sup> .<br>Total annual loss in Wales = <b>£10 million</b> .                 |
|                        |                    | 4. Changing the basis for setting LHA rates from the median to the thirtieth percentile of local market rents. Will affect new and existing claimants from April 2011 and October 2011 respectively. | Average weekly loss per losing recipient in Wales = <b>£8</b> (GB average = £9) <sup>18</sup> .   | Number of LHA recipients in Wales losing money = <b>43,270</b> (89% of all LHA recipients in Wales) <sup>19</sup> .<br>Total annual loss in Wales = <b>£18 million</b> .                 |
|                        |                    | Combined impact of HB measures 2–4 (above) in 2011–12.   | Average weekly loss per losing recipient in Wales = <b>£9</b> (GB average = £12) <sup>20</sup> .  | Number of LHA recipients in Wales losing money = <b>48,530</b> (99.6% of all LHA recipients in Wales) <sup>21</sup> .<br>Total annual loss in Wales = <b>£23 million</b> <sup>22</sup> . |

16 DWP (2010a) *Impacts of Housing Benefit Proposals: Changes to the Local Housing Allowance to be introduced in 2011–12*. Based on March 2010 data.

17 *Ibid.*

18 *Ibid.*

19 *Ibid.*

20 *Ibid.*

21 *Ibid.*

22 This does not equal the sum of the individual policy changes 2–4 as the combined impact takes into account that existing claimants will be affected for part rather than the whole of 2011–12 (i.e. October 2011 to April 2012), whereas the annual losses for the individual policy changes are in steady state (i.e. claimants are affected by the changes for the full year).

| Date policy introduced | Benefit/tax credit | Policy change   | Estimated (direct) impact in Wales  |  |
|------------------------|--------------------|---|---|--|
|                        |                    |   | Individual/household level  | Country level  |
| <b>April 2011</b>      | <b>CB</b>          | 5. CB rates frozen for three years from 2011–12 <sup>23</sup> .                     | Average weekly loss per losing family in Wales = <b>£2.50</b> in 2013–14 <sup>24</sup> .          | Numbers affected in Wales <sup>25</sup> : <b>370,000 families, 640,000 children.</b><br>Total annual loss in Wales = <b>£47 million in 2013–14</b> <sup>26</sup> .   |
| <b>January 2012</b>    | <b>HB</b>          | 6. Increasing the age threshold for the HB shared accommodation rate from 25 to 35. | Average weekly loss per losing recipient in Wales = <b>£24</b> (GB average = £41) <sup>27</sup> . | Number of LHA recipients in Wales losing money = <b>3,080</b> (6% of all LHA recipients in Wales) <sup>28</sup> . This is based on DWP calculations. However, evidence received from LAs suggests that this figure may be closer to 4,000.<br>Total annual loss in Wales (based on DWP figures) = <b>£4 million.</b> |

<sup>23</sup> As announced in the Autumn Statement 2012, Child Benefit will increase by 1 per cent for two years from 2014–15 – see policy change 16 in Table 1.

<sup>24</sup> Welsh Government estimate based on Wales' proportionate share of Exchequer savings divided by current caseload of CB claimants in Wales.

<sup>25</sup> Based on HMRC CB caseload in Wales as at 31 August 2011.

<sup>26</sup> Welsh Government estimate.

<sup>27</sup> DWP (2011a) Housing Benefit equality impact assessment: Increasing the Shared Accommodation Rate age threshold to 35. Based on March 2010 data.

<sup>28</sup> *Ibid.*

| Date policy introduced | Benefit/tax credit      | Policy change  | Estimated (direct) impact in Wales  |   |
|------------------------|-------------------------|--|---|---|
|                        |                         |  | Individual/household level  | Country level   |
| April 2012             | <b>Contributory ESA</b> | <p>7. Time-limit contributory ESA to one year for those in the WRAG.</p> <p>This caseload can be split into three groups (proportions based on GB figures<sup>29</sup>).</p> <p><b>Group 1:</b> Those claiming both income-related and contributory ESA. This group will continue to receive income-related ESA when the time limit applies (around 30%).</p> <p><b>Group 2:</b> Those who are likely to become entitled to income-related ESA once they lose their contributory ESA (around 30%).</p> <p><b>Group 3:</b> Those not expected to qualify for income-related ESA due to other income sources. Will become an ESA credits-only claimant (around 40%).</p> | <p>The average effect of time-limiting on ESA payments will vary between the three groups (losses based on GB figures<sup>30</sup>).</p> <p><b>Group 1:</b> Average net weekly loss per person = <b>£11</b>.</p> <p><b>Group 2:</b> Average net weekly loss per person = <b>£22</b>.</p> <p><b>Group 3:</b> Average net weekly loss per person = <b>£89</b>.</p> <p>Overall average net weekly loss per person = <b>£46</b>.</p> <p><b>Note:</b> The above impacts do not account for the gains from other benefits (e.g. tax credits, HB, CTB, and other passported benefits). Therefore, they are likely to be overestimated. Given a lack of data, it is difficult to quantify these gains and hence the overall impact.</p> | <p>DWP project that <b>700,000</b> ESA contributory claimants in the WRAG in <b>GB</b> will be affected by the time-limiting policy by 2015–16<sup>31</sup>. Data at a Wales level has not been provided.</p> <p>However, assuming an impact proportionate to the GB aggregate based on caseloads (of those in the WRAG with duration on ESA for one year or more), approximately 8% of this total would be affected in <b>Wales</b> (i.e. around <b>56,000</b><sup>32</sup>).</p> <p>Based on the DWP data in the previous two columns, ESA payments in Wales are estimated to be reduced by around <b>£132 million</b> by 2015–16. This will be offset partly by the gains from other benefits.</p> |

29 DWP (2011b) Time limit Contributory Employment and Support Allowance to one year for those in the Work-Related Activity Group – Impact assessment.

30 Ibid. 2010/11 prices.

31 Ibid.

32 Welsh Government estimate based on DWP statistics, February 2012.

| Date policy introduced | Benefit/tax credit      | Policy change   | Estimated (direct) impact in Wales   |   |
|------------------------|-------------------------|---|--|---|
|                        |                         |   | Individual/household level   | Country level   |
| April 2012             | <b>Contributory ESA</b> | <p>8. Abolishing the special arrangements that allow certain young people to qualify for contributory ESA under the ESA 'youth' provision. Those affected can be split into three groups (proportions based on GB figures<sup>33</sup>).</p> <p><b>Group 1:</b> Those with no other income (an estimated 20%) will get exactly the same amount of income-related ESA.</p> <p><b>Group 2:</b> Those that will qualify for income-related ESA either at the same or lower rate due to having some other income (around 70%).</p> <p><b>Group 3:</b> The remaining 10% are not expected to qualify for income-related ESA because they have a partner in full-time work, or capital over £16,000, or other income taking them above the applicable amount.</p> | <p>The average effect of this policy will vary between the three groups (losses based on GB figures<sup>34</sup>).</p> <p><b>Group 1:</b> No impact.</p> <p><b>Group 2:</b> Average net weekly loss per person = <b>£25</b>.</p> <p><b>Group 3:</b> Average net weekly loss per person = <b>£100</b>.</p> <p>Overall average net weekly loss per person = <b>£30</b>.</p> <p><b>Note:</b> The above impacts do not account for the benefits that some may gain from becoming entitled to passported benefits (e.g. FSM). Therefore, they are likely to be overestimated. Given a lack of data, it is difficult to quantify these gains and hence the overall impact.</p> | <p>DWP project that by 2015–16, the abolition of ESA 'youth' provisions will affect approximately <b>15,000</b> people in <b>GB</b> who would have been claiming contributory ESA<sup>35</sup>. Data at a Wales level has not been provided.</p> <p>However, assuming an impact proportionate to the GB aggregate based on caseloads (of ESA youth), approximately 8% of this total would be affected in <b>Wales</b> (i.e. around <b>1,200</b><sup>36</sup>).</p> <p>Based on the DWP data in the previous two columns, ESA youth payments in Wales are estimated to be <b>reduced</b> by around <b>£1.7 million</b> by 2015–16. However, this will be offset partly by the gains from other benefits.</p> |

33 DWP (2011d) Abolition of concessionary Employment and Support Allowance 'youth' National Insurance qualification conditions – Impact assessment.

34 Ibid.

35 Ibid.

36 Welsh Government estimate based on DWP statistics, February 2012.



| Date policy introduced | Benefit/tax credit | Policy change  | Estimated (direct) impact in Wales   |  |
|------------------------|--------------------|--|--|--|
|                        |                    |  | Individual/household level   | Country level  |
| April 2012             | WTC                | 9. Increase working hours requirement for couples with children from 16 to 24 hours. | Maximum weekly loss per losing household in Wales = <b>£74</b> <sup>37</sup> . | There were <b>9,380</b> households in Wales entitled to WTC (prior to April 2012) that were couples with children working between 16–24 hours per week and hence would have potentially been affected by this reform <sup>38</sup> . However, these figures do not take into account any behavioural changes such as an increase in hours worked.<br><br>Total annual loss in Wales = <b>£36 million</b> . |
|                        | CTC                | 10. Removal of the second income threshold.  | Maximum weekly loss per losing household in Wales = <b>£10</b> <sup>39</sup> . | <b>43,500</b> households in Wales are estimated to have lost their entitlement to CTC in April 2012 as a result of this policy (around 15% of CTC recipient families in Wales <sup>40</sup> ).<br><br>Total annual loss in Wales = <b>£24 million</b> .  |

<sup>37</sup> Based on HMRC Working Tax Credit rates (basic element plus couple/one parent element) April 2012.

<sup>38</sup> HMRC Statistics for December 2011.

<sup>39</sup> Based on HMRC Child Tax Credit rates (family element) April 2012.

<sup>40</sup> Based on HMRC Statistics for 2010–2011.

| Date policy introduced | Benefit/tax credit | Policy change  | Estimated (direct) impact in Wales   |  |
|------------------------|--------------------|--|--|--|
|                        |                    |  | Individual/household level   | Country level  |
| May 2012               | IS (lone parents)  | 11. New claims for IS only if claimants have a child under the age of five (was reduced to seven in October 2010). | No direct effect on income. However, up to <b>1,250</b> lone parents in Wales could move into work as a result, which would affect their income. | In Wales, around <b>5,000</b> lone parents who claimed IS in February 2012 had a youngest child aged 5 or 6 and may therefore have been affected by this policy <sup>41</sup> . In steady state, this policy is estimated to affect <b>3,800</b> lone parents per year in Wales. |

<sup>41</sup> DWP (2013b). The caveat placed upon this data is that this is a less than perfect assumption of those affected by this policy. This is because the caseload might have naturally changed prior to the policy change; lone parents might have left IS despite entitlement, prior to the policy change for a number of reasons, for example family formation changes such as re-partnering; and, conversely, people who might have moved to JSA/employment, etc., prior to the policy change might have decided to continue to claim IS right up until they lost entitlement. The latest data is for February 2012. The numbers affected in steady state and those moving into work are Welsh Government estimates based on GB estimates contained in DWP (2011c).

| Date policy introduced | Benefit/tax credit | Policy change  | Estimated (direct) impact in Wales   |  |
|------------------------|--------------------|--|--|--|
|                        |                    |  | Individual/household level   | Country level  |
| January 2013           | CB                 | 12. CB will be withdrawn where someone in the household has a taxable income of more than £50,000. Via changes to income tax, it will be withdrawn at 1% for every £100 earned over £50,000. | <p>Average weekly loss per losing family in GB<sup>42</sup> = <b>£25</b>.</p> <p>Data not currently available for Wales. However, the income distribution suggests that the average loss would be lower in Wales. This is because Wales has a lower proportion of very high earners (£70,000+). Given this distribution, compared to GB as a whole, Wales is likely to have a lower proportion of families losing <b>all</b> of their CB, and a higher proportion of families on the taper losing a <b>portion</b> of their benefit.</p> | <p>Approximately <b>1.2 million families</b> are affected by this new tax charge in <b>GB</b>. Around 70% of these households would have lost all of their CB, and 30% would have lost a portion (for the reasons in the previous column, this split is likely to be different in Wales). 90% of families in the CB population will continue to benefit from some or all of their CB<sup>43</sup>. Based on Wales' share of those earning more than £50,000 in GB, around <b>31,000 families</b> are affected in <b>Wales</b><sup>44</sup>.</p> <p>Total annual loss in Wales = <b>£41 million</b><sup>45</sup>.</p> |

42 HMRC (2012) CB: Income Tax Charge for Those on Higher Incomes. The loss figure (-£25) is the average for families that lose all of their CB and those that only lose a portion.

43 HMRC (2012) CB: Income Tax Charge for those on Higher Incomes.

44 Welsh Government estimate.

45 Based on an average loss figure for GB and therefore is likely to be overestimated. No HMRC data currently available at a Wales level.

| Date policy introduced | Benefit/tax credit | Policy change   | Estimated (direct) impact in Wales  |  |
|------------------------|--------------------|---|---|--|
|                        |                    |   | Individual/household level  | Country level  |
| April 2013             | HB                 | 13. Up-rating LHA rates by the CPI in 2013–14 <sup>46</sup> .   | Average weekly loss per losing recipient in <b>GB = £6</b> <sup>47</sup> . No data available for Wales. | Number of LHA recipients in Wales that will lose money = <b>48,530</b> (99.6% of all LHA recipients in Wales) <sup>48</sup> .<br>Total annual loss in Wales = <b>£15 million</b> .   |
|                        |                    | 14. Limiting the amount of HB paid to claimants living in social housing who are under-occupying their accommodation. | Average weekly loss per losing recipient in Wales = <b>£12</b> (GB average = £14) <sup>49</sup> .       | Number of benefit recipients in Wales that will lose money = <b>40,000</b> (46% of all working-age HB claimants in the social rented sector in Wales <sup>50</sup> ).<br>Total annual loss in Wales = <b>£25 million</b> . |

<sup>46</sup> As announced in the Autumn Statement 2012, LHA rates will be increased by 1 per cent for two years from 2014–15.

<sup>47</sup> DWP (2012a) Housing Benefit – Up-rating Local Housing Allowance Rates by CPI from April 2013 – Impact Assessment. (2014/15 prices).

<sup>48</sup> Based on the March 2010 Single Housing Benefit Extract.

<sup>49</sup> DWP (2012c) Housing Benefit: Under-occupation of Social Housing – Impact Assessment. 2013/14 prices.

<sup>50</sup> Ibid. (2013/14 estimates).

| Date policy introduced | Benefit/tax credit   | Policy change  | Estimated (direct) impact in Wales  |   |
|------------------------|--|--|---|---|
|                        |  |  | Individual/household level  | Country level   |
| April 2013             | <b>Household Benefit Cap</b>   | 15. Limiting the total amount of welfare payments a working-age household can receive (£500 per week for couple and lone-parent households, and £350 per week for single-person households where no children are present). | Average weekly loss per affected household in Wales = <b>£70</b> <sup>51</sup> (GB average = £93 <sup>52</sup> ).   | Number of <b>households</b> in Wales that will lose money (2013–14) = <b>1,500</b> (around 3% of all affected claimant households in GB). The number of <b>adults</b> and <b>children</b> in affected households in Wales is around <b>2,500</b> and <b>6,000</b> respectively <sup>53</sup> . These numbers are likely to increase in 2014–15.   |
|                        | <b>Most working age benefits and tax credits (excluding disability and carers benefits) and CB</b> | 16. Working-age discretionary benefits and tax credits: increase by 1% for three years from 2013–14.<br>CB: increase by 1% for two years from 2014–15.   | Average weekly loss per affected household in <b>GB = £3</b> (around 1% of net income) <sup>54</sup> .<br>DWP estimate that households in lower-income deciles and families with children (particularly lone parents) are likely to incur the largest income losses from this policy. | Total annual loss in Wales (2013–14) = <b>£5 million</b> .<br>Working-age benefit claimants affected = <b>290,000</b> <sup>55</sup> .<br>Recipient tax credit families affected = <b>325,000</b> <sup>56</sup> . CB recipient families affected = <b>350,000</b> <sup>57</sup> . <b>Note:</b> there will be some overlap between these three groups. Total annual loss in Wales = <b>£113 million</b> in <b>2015–16</b> <sup>58</sup> . |

51 DWP mean estimate (2013/14 prices) received via e-mail from DWP.

52 DWP (2012e) Benefit Cap (Housing Benefit) Regulations 2012: Impact Assessment for the benefit cap. 2013/14 prices.

53 Ibid. However, more up-to-date ad hoc analysis published by DWP in October 2012 reports that 2,640 households (3,920 individuals) in Wales have been notified that they may be affected by the benefit cap in April 2013. Therefore, the figures used from the Impact Assessment may be an underestimation.

54 DWP (2013a) Welfare Benefits Up-rating Bill – Impact Assessment. This loss is the difference between up-rating by 1 per cent and up-rating by CPI inflation. The impact of this policy will depend crucially on the out-turn for inflation over the next few years. No data published at a Wales level.

55 Based on DWP statistics for February 2012.

56 Based on HMRC statistics for 2010–11.

57 Based on HMRC CB caseload in Wales as at 31 August 2011 minus the number of households estimated to lose all of their CB as a result of policy change 12 in Table 1.

58 Welsh Government estimate based on Wales' proportionate share of Exchequer savings per annum.

| Date policy introduced   | Benefit/tax credit | Policy change  | Estimated (direct) impact in Wales   |  |
|--|--------------------|--|--|--|
|  |                    |  | Individual/household level   | Country level  |
| <b>April 2013</b><br>(PIP will be delivered in a controlled start area in the NW and NE of England from April 2013. Claimants in Wales will be affected from June 2013.) | <b>DLA/PIP</b>     | 17. Replacing DLA for 16 to 64-year-olds with a new benefit (PIP). This aims to focus support on those disabled people that are considered to have the greatest needs. | Of the reassessed DLA caseload, for GB as a whole, it is expected that around 30% will have an increased award, 30% will have a decreased award, a quarter will receive no award at all, and the rest will be unchanged. Impact from <b>losing entitlement</b> to DLA/PIP in Wales: average weekly loss per losing claimant = <b>£55–83</b> <sup>59</sup> . There is insufficient data to quantify the impact on those with higher/lower awards. | Impact from <b>losing entitlement</b> to DLA/PIP in Wales: it is estimated that PIP will result in <b>607,000</b> fewer claimants in <b>GB</b> by May 2018 (compared to a scenario where PIP had not been introduced) <sup>60</sup> . Assuming an impact proportionate to the GB aggregate based on caseloads, approximately 7% of this total would be affected in Wales (i.e. <b>42,500</b> <sup>61</sup> ). Total annual loss in Wales = <b>£122–183 million</b> . |
| <b>April 2013</b>  | <b>CTB</b>         | 18. The UK Government will devolve responsibility for providing support for low-income families with their council tax and will cut funding by 10%.                    | Given the funding from the Welsh Government, there will be <b>no impact</b> on households in 2013–14. The impact in 2014–15 will be dependent on the specific design of a replacement scheme, which has yet to be finalised.   | The funding transfer to the Welsh Government for 2013–14 is 10% less than the expected cost of the current CTB system in Wales. The Welsh Government has announced that it will make up a shortfall of <b>£22 million</b> in 2013–14.  |

59 Welsh Government estimate. Bottom end of range based on the average weekly amount of DLA for the lower rate of the care and mobility components for working-age claimants in Wales. Top end of range based on the average weekly amount of DLA for all rates of the care and mobility components for working-age claimants in Wales, February 2012 (up-rated to 2015/16 prices). Source: DWP Information, Governance and Security, Work and Pensions Longitudinal Study.

60 DWP (2012f) *Personal Independence Payment: Reassessment and impacts*.

61 Welsh Government estimate.

| Date policy introduced  | Benefit/tax credit | Policy change   | Estimated (direct) impact in Wales  |  |
|---|--------------------|---|---|--|
|   |                    |   | Individual/household level  | Country level  |
| <p><b>October 2013</b> – national go live date.</p> <p>(From April 2013, a UC 'Pathfinder' programme will take place in parts of north-west England.)</p> | <p><b>UC</b></p>   | <p>19. A new single welfare benefit that will replace the following means-tested benefits and tax credits for working-age adults:</p> <ul style="list-style-type: none"> <li>• IS</li> <li>• Income-based JSA</li> <li>• Income-related ESA</li> <li>• WTC</li> <li>• CTC</li> <li>• HB.</li> </ul> | <p>There will be losers and gainers from the introduction of UC.</p> <p>2014–15: Average <b>reduction</b> in monthly income per losing household in Wales = <b>£150</b> (similar to the average loss for GB as a whole).</p> <p>Average <b>increase</b> in monthly income per gaining household in Wales = <b>£159</b> (similar to the average gain for GB as a whole).</p> <p><b>Note:</b> based on DWP figures, which exclude the impact of transitional protection<sup>62</sup>.</p> | <p>2014–15: Number of households in Wales that will see <b>no change</b> in their entitlement under UC = <b>100,000</b>.</p> <p>Number of households in Wales that will have <b>lower</b> entitlements under UC = <b>200,000</b>. Total annual <b>loss</b> in Wales = <b>£360 million</b>.</p> <p>Number of households in Wales that will have <b>higher</b> entitlements under UC = <b>200,000</b>. Total annual <b>gain</b> in Wales = <b>£382 million</b>.</p> <p><b>Overall net gain</b> in Wales (per annum) = <b>£22 million</b><sup>63</sup>.</p> |

62 Statistics for Wales received via e-mail from DWP. The statistics are based on those provided in DWP (2012h) Universal Credit – Impact Assessment. All costs and benefits are reported in 2012/13 prices. Impacts are provided in the steady state; that is once UC is fully implemented and transitional protection has been fully exhausted. The analysis includes an adjustment to account for incomplete take-up.

63 When modelling the steady state impact of a complex policy change such as UC with large numbers of gainers and losers, there is a wide margin of error around the overall net impact (as this represents the difference between a large gross gain and a large gross loss). Therefore, it is no surprise that this Welsh Government estimate, based on DWP figures, differs from the IFS estimate included in Adam and Phillips (2013). The IFS estimate suggests there will be an overall net gain of £70 million from the implementation of UC in Wales.



# Wider economic and social impacts of welfare reform and potential implications for devolved public services in Wales

The changes outlined in Section 1 will have far-reaching impacts for benefit claimants, particularly families with children, and also for the services that support them. Furthermore, given the links between these services, impacts on one area may have knock-on impacts on other areas. Although reform of welfare benefits is a non-devolved matter, some measures impact on devolved services that are delivered by the Welsh Government and LAs including:

- health services
- social care services
- housing
- education and training
- economic development
- communities and social justice
- local government.

The aim of this section is to highlight the potential wider economic and social impacts on benefit claimants and their associated implications for the demand for devolved public services in Wales. Although it may be too early to fully identify and quantify these impacts at this stage, an initial qualitative analysis is provided below based on existing evidence.

Each section is introduced with a general overview of the distributional impact of public service use as indicated by existing evidence, some of which is summarised in the **Annex**. However, it is important to note that the evidence on these relationships is often patchy and ambiguous. Nevertheless, it provides a useful indication.

It is useful to understand these relationships given that the majority of the benefit changes are expected to have a direct negative impact on income and poverty levels in Wales by the removal of, or cuts to, benefits as outlined in Table 1 (pages 18–29), as well as in the Welsh Government’s Stage 1 report and in the remainder of the Stage 2 analysis undertaken by Adam and Phillips (2013). In particular, income losses from the welfare reforms excluding UC are a larger fraction of income, on average, towards the bottom half of the income distribution than at the top. The introduction of UC makes the impacts much less regressive. However, low–middle income families remain the biggest losers. In cash and proportional terms, income losses are largest for families with children. There may also be an additional indirect income effect since eligibility to one benefit (e.g. DLA) often acts as a passport to other benefits and allowances.



These impacts are likely to increase demand for public services given that some evidence suggests that use of these services is more concentrated at the bottom of the income distribution (Tonkin, 2012; Sefton, 2002; Volterra, 2009; Horton and Reed, 2010). However, O’Dea and Preston (2010) note that there are challenging conceptual and empirical issues involved with evaluating public service provision. In addition to this general relationship between income and the use of public services, some of the specific potential economic and social impacts of welfare reform on benefit claimants are outlined along with their likely implications for devolved services in Wales.

It is worth noting that the effects of welfare reform will be made more acute by the economic climate and the impact of austerity measures and cuts across all public services.

## Health services

### Key reforms:

- UC
- replacement of DLA with PIP (for 16 to 64-year-olds)
- replacement of Incapacity Benefit (IB) and IS paid on the grounds of incapacity with ESA (and the work capability assessment)
- time-limiting contributory ESA to one year for those in the WRAG
- Social Fund
- ILF
- HB.

### Potential impacts

**Distributional impact** – Sociodemographic variation in health status is longstanding and well-documented with many adverse health conditions more prominent in individuals with low incomes. For example, the Marmot Review (2010) highlights health inequalities that result from social inequalities. With the exception of visits to the dentist, individuals from ‘lower’ social groups (whether defined on the basis of income, occupation or education) are more likely to use health services. Mortality, and in general, morbidity rates are higher for individuals from lower social groups.

In addition, a growing volume of evidence suggests that making the gradient steeper and increasing the differences between those with more resources and those with fewer resources (as is the case with the generally regressive nature of the reforms prior to the

introduction of UC) is likely to worsen health. This is due to material matters such as poorer food, housing, clothing, etc. – and also psychological and physical factors involving poor mental health and lower immunity – and a generally impoverished and narrower life (e.g. inability to travel, learn, see relatives, etc.).

### Negative

- Given the relationship between income and health, the loss of welfare income in Wales resulting from benefit and tax credit changes (£590 million in 2014–15), especially where it is to the extent that people are pushed into poverty, may lead to a squeeze in living standards and poorer health. Furthermore, debt problems may lead to increased levels of stress and anxiety, and physical and mental health problems.
- New and uncertain assessment processes may potentially lead to an adverse impact on claimants' health (particularly mental health). These might include:
  - **stricter medical assessments**, e.g. Work Capability Assessment (WCA) that is used to assess whether people should receive ESA, which claimants may find complex and stressful. DWP statistics for new claims in Wales show that 60 per cent of outcomes for initial functional ESA assessments started between October 2008 and February 2012 were categorised as fit for work (and no longer eligible for ESA). Case study and survey findings from the Deep End Steering Group (2012), which comprises GPs based in some of the most deprived areas of Scotland and also academics from Glasgow University, suggest that the WCA has led to deterioration in mental health for some claimants who have been deemed fit for work and have subsequently had their benefits cut. In some cases, GPs reported that such claimants struggled to make ends meet, increased contact with GPs and psychiatry, increased antidepressant/antipsychotic use, and self-medicated with drugs and alcohol. It is worth noting that 43 per cent of people claiming ESA in Wales (and Britain) do so primarily because of a mental or behavioural disorder (DWP statistics, February 2012)
  - **tighter eligibility criteria** (e.g. time-limiting ESA to one year for those in the WRAG) that may, in some cases, result in removal of certain benefits and/or tax credits

- **appeals processes** – there has been much criticism of the WCA in terms of whether it is fit for purpose. Harrington (2010, 2011, 2012) has undertaken three independent reviews of the WCA. The first and second Reviews broadly concluded that although the WCA is the right concept, much needed to be done to improve the working of the system. There are two main strands to the recommendations made throughout the Reviews: to revise the process of the WCA from the first claimant contact right through to appeal (where necessary); and to review whether the current descriptors accurately capture the true nature of a claimant’s case. Although progress appears to have been made in both areas, the third Review concludes that there remains more to do in terms of improving communications (with claimants and within DWP Operations) and the face-to-face assessment, for example. The latest DWP statistics report that 43 per cent of those found fit for work in Wales have appealed against this decision, and 36 per cent of these appeals have been found in favour of the client
- in some cases, the benefit changes, in particular the **greater conditionality requirements** associated with UC (i.e. those who can work or can prepare for work will be expected to do more as a condition of receiving benefit) as outlined in a signed ‘Claimant Commitment’ may mean that some recipients of legacy benefits choose to no longer claim benefits. This is particularly the case for couples. For example, Adam and Phillips (2013) note that currently JSA conditions apply up to 16 hours or £76 (£121 for couples) whereas UC will extend these conditions to 35 hours x minimum wage = £213 (£426 for couples). UC will also, for the first time, introduce ‘in work’ conditionality for those who earn below an earnings threshold. However, a report on user-centred design testing of UC (undertaken between March and October 2011) indicates a resistance to the principles of in-work conditionality and the need for greater employment support for those in work (Rotik and Perry, 2012). It is not yet clear just how many more people will face work search requirements under UC: the regulations allow for the extension of work search requirements to around 50,000 more people in Wales (mainly among couples), but DWP has not committed to using that option in full so the implications are unclear at this stage (Adam and Phillips, 2013). In addition, prior to the introduction of UC, many more people may face work search

requirements compared to April 2010. For example, lone parents with a youngest child aged between five and nine previously claiming IS and former claimants of IB assessed as fit for work are being moved onto JSA, which has significantly greater job search requirements.

- There may be a negative impact on health from the tougher penalties for failing to comply with the conditionality regime. Sanctions range from benefits being ceased for one week (e.g. failure of those in the full conditionality category to prepare for work) to up to three years (e.g. failure to comply on numerous occasions). Evidence suggests that younger claimants are disproportionately likely to receive a sanction as a result of being supported by their families (Peters and Joyce, 2006), while sanctions data for JSA suggests that people with a disability and women are currently less likely to receive a sanction overall (DWP Sanctions Evaluation Database and JSA population data from the National Benefit Database). At an overall level there appears to be no notable difference in the probability of a sanction for different people in different ethnic groups. Sanctions will not be applied to the whole UC award; rather, they will apply only to the equivalent amount sanctioned under the current benefits system (e.g. JSA or ESA). Also, hardship funds will be available to those who have complied with all work-related requirements in the previous compliance period and any payment will be recoverable from future UC payments (DWP, 2012o). Therefore, sanctions will lead to a reduction in income and possible detrimental impacts on health. On the other hand, sanctions may have a role in encouraging claimants to comply with requirements that are designed to help them move into or prepare for work. This would increase their chances of finding work more quickly and may have a positive impact on health.
- There is a risk that some of the reforms may lead to unintended behavioural responses that could potentially have a negative impact on health. For example, people who have been time-limited on contributory ESA and are not eligible for income-related ESA (due to other income or capital) may choose to give up other income in order to become eligible for income-related ESA. This may involve a partner giving up their employment and the positive effects on well-being that are associated with it.

- Both monthly benefit payment periods (which are replacing many fortnightly payments) and benefit cuts may further exacerbate budgeting problems for low-income families, which may lead to increased health risks. For example, if people cannot afford to pay their energy bills, then they may under-heat their home or become disconnected altogether, and therefore lose access to heating and hot water. This may lead to cold-related illnesses, increases in stress and mental illness, increased GP visits and hospital admissions, all of which will add to pressure on the NHS, and potentially increase winter deaths. However, DWP do suggest that the monthly payment of benefit will make it easier for households to take advantage of cheaper tariffs for utility bills.
- Alternatively, people may reduce their spending on essentials like food in order to have sufficient money to pay their fuel bills, again leading to poorer health outcomes. This may lead to an increased use of food banks. Indeed, the Trussell Trust (which operates a network of 23 food banks in Wales) has reported a significant increase in demand from April 2011 to March 2012 and more so since April 2012. As well as the effect of welfare reform, the economic climate may also have had a role to play in this increased demand. In addition, recent research for DWP on claimants whose LHA was less than their rent suggests that the most common actions were to reduce spending on essential (42 per cent) and non-essential (36 per cent) items. However, shortfalls do appear to have affected work behaviour. For example, over a quarter of claimants said they had looked for work to make up the difference, and about one in ten had looked for a better-paid job (Beatty et al., 2012).
- HB reforms may force some benefit claimants into poor-quality or overcrowded housing, or may even lead to homelessness, which could result in negative health and well-being impacts. In addition, if families are forced to relocate out of their local area as a result of the welfare reforms they may lose informal childcare and other support, which may have a detrimental impact on parental employment and the general well-being of families, as well as potentially increasing demand for formal service provision. Furthermore, research by Brown (2012a) suggests that frequent childhood moves are associated with poorer health outcomes (e.g. overall health and psychological distress) and behaviours (e.g. heavy drinking, drug use and smoking), but not physical health measures (e.g. body mass index).

- Claimants who are currently entitled to out-of-work means tested benefits, disability benefits, or tax credits can also be eligible for a range of other support known as passported benefits. A number of Welsh Government-administered passported benefits and schemes aim to improve health and well-being outcomes for adults and children. Given that UC and PIP will replace those benefits and tax credits that currently determine eligibility, new eligibility criteria are currently being considered. Therefore, firstly, entitlement may be affected by the changes to the eligibility criteria for passported benefits. However, the Welsh Government is aiming to introduce new eligibility criteria that will have minimal negative disruption for passported benefit recipients. Secondly, the tighter eligibility criteria associated with some of the changes under the Welfare Reform Act 2012 may mean that those who are currently entitled to benefits and/or tax credits may lose their entitlement, thus potentially indirectly affecting their eligibility for passported benefits. However, the numbers affected by this are likely to be small since claimants will often become eligible for other benefits that also entitle them to passported benefits. Those passported benefits that may be affected are outlined below.
  - **Free schools meals (FSM)** – aims to provide children in low-income families with a nutritious meal on a daily basis. Some research studies suggest that take-up of school lunches might improve children’s health and behaviour (Golley et al., 2010 and Storey et al., 2011) and have a positive impact on their eating habits outside of school (Harper et al. 2009). However, there is no consensus within the research evidence. Although a recent study by Brown (2012b) suggests that universal FSM entitlement had positive impacts on children’s diets, no evidence was found that these changes in lunchtime eating habits translated into any quantifiable health benefits (e.g. a change in children’s body mass index) during the two-year pilot period, although longer-run health impacts may result.
  - **Healthy Start** – a means-tested scheme for pregnant women and families with children under four years old, which supplies vouchers for basic foods and vitamins. This aims to provide a nutritional safety net for very low-income recipients. The loss of this entitlement may lead to poorer nutritional status of babies born to low-income mothers, poorer quality breast milk, babies and children having less healthy diets, all of which can affect lifelong health and prevalence of chronic disease.

- **NHS sight test and help towards the cost of glasses** – if fewer people under UC are entitled to a free NHS sight test or help by way of a voucher towards the cost of glasses, there may be detrimental effects on eye health. The sight test is not just about establishing if a patient requires spectacles, it is also designed to detect sight-threatening problems at an early stage before visual loss occurs. Loss of vision can impact on many aspects of broader health and well-being causing extra demand and pressure for social services and other health services.
- **NHS dental treatment** – the availability of free dental treatment encourages regular attendance by removing the barrier of cost and affordability. Currently some 60 per cent of adults in Wales accessing NHS dentistry do not have to pay for treatment. Oral health is an intrinsic part of general health. If the number of patients liable to pay for dental treatment increases, this may lead to non-attendance and a deterioration in oral health. Counter to this, the revenue received from dental patient charges (some £28 million per annum) contributes to the overall funding of oral health and dental care. Should the number of patients liable to pay charges fall, this will reduce the revenue available to provide NHS dental services.
- **Travel costs** – this offers assistance to those patients who have a medical need for transport to hospital. The Healthcare Travel Cost Scheme allows patients to reclaim all, or part of the costs associated with attendance at consultant-led secondary care appointments.
- **NHS Low Income Scheme** – This scheme provides full or partial help with health costs for NHS dental treatment, sight tests, glasses/contact lenses, and travel to hospital to receive NHS treatment under the care of a consultant. The same implications would apply as above if fewer people were entitled to these health services under the NHS Low Income Scheme.
- **Nest** – a fuel poverty scheme that offers a range of advice and support to low-income households to help reduce energy bills and improve energy efficiency. As mentioned above, an increase in the number of people becoming fuel poor could lead to increased health risks.
- **Blue Badge (disabled parking) scheme** – designed to help blind or disabled people to travel independently as either a driver or a passenger by allowing them to park close to where



they need to go. Loss of entitlement may result in reduced access to services, facilities and independent living.

- **Welsh Government School Uniform Grant** – provides one-off grant payments to assist families on low incomes with the purchase of school uniforms for their children. The loss of entitlement to the grant will increase financial hardship for families on low incomes who cannot afford to buy school uniforms. These families may resort to taking out loans to pay for school uniform items or may not be able to afford to buy school uniforms at all. If that happens, more learners will not be dressed in school uniform or appropriate attire for school, which in turn may lead to school sanctions for non-compliance with school uniform rules, increased stigmatisation, bullying, truancy, low self-esteem and disruptive behaviour.
- **Remission of charges for board and lodging on school residential trips** – families who are in receipt of certain benefits are exempt from paying the cost of board and lodging on school residential trips. The loss of entitlement to this exemption will increase the financial pressure on families with low incomes to pay for the trips. Ultimately it may result in fewer children from low-income families going on such trips because their families cannot afford to pay the costs, and in schools offering fewer residential trips as a consequence of declining attendance on these trips.
- The discretionary elements of the Social Fund (Crisis Loans and Community Care Grants) will be transferred to the Welsh Government from April 2013. The key aim of the Social Fund in Wales will be to assist individuals and families who are facing an emergency situation or a significant life event that could have a detrimental impact on their health and well-being. Given this aim, the combined impact of the reduction in programme funding and the anticipated increase in applications over the next few years will reduce the availability of this support for vulnerable people, which may have a detrimental impact on health outcomes, especially mental health.
- The ILF provides discretionary cash payments directly to disabled people with high support needs. This support enables disabled people to choose to live in their communities rather than in residential care. The ILF was closed to new applicants in June 2010. In December 2012, following consultation, the UK Government confirmed that it will be closing the ILF in 2015 and devolving funding to LAs in England and to the devolved



administrations in Wales and Scotland. The Welsh Government will need to decide how best to support the 1,900 or so ILF recipients in Wales, who currently receive approximately £35 million per annum. Depending on the successor arrangements, this may impact on the health of disabled people.

- There may be increased pressure on the health service as a result of the need for more GP assessments (e.g. due to changes to Blue Badge eligibility criteria) and referrals from the Work Programme, which is DWP's new £5 billion payment-for-results welfare-to-work programme launched throughout Great Britain in June 2011. It provides personalised work-focused support for people who are long-term unemployed or who are at risk of becoming so; it also aims to offer in-work support to enable people to remain in work once they have found employment. There may also be additional administrative demands for medical evidence to support assessments and appeals. Furthermore, legal aid reform will mean that people will no longer be able to access medical evidence for free via this route, with consultants and GPs potentially choosing to charge individuals for this evidence to support their appeals against benefit decisions. Those households that move to alternative accommodation as a result of a shortfall between benefit and rent may also have an impact on demand for GP practice provision. However, DWP (2010b) note that this impact is unlikely to be significant.

### Positive

- The move to UC will change the level of entitlements for some households who are already in receipt of existing benefits. For those whose circumstances have remained the same, the UK Government will provide cash protection to claimants whose UC award would be less than under the old system. This transitional protection will be a cash top-up to make up the difference between the old and the new benefit. The maximum amount will be fixed at the point of change, and cash protection will continue to be paid until the value of the award under the new system overtakes the levels of the pre-UC entitlement. This approach will ensure that some claimants have time to adjust to the move to UC, and will reduce the impact on incomes and subsequently health given the links outlined previously. However, research by Sainsbury et al. (1996) found that only 3 per cent of IS claimants had not experienced a change in circumstances that affected their entitlement during the first six months of their claim.

This suggests that the likelihood of transitional arrangements providing income protection beyond the short-term is limited (Finn and Tarr, 2012).

- As outlined in their impact assessment for UC, DWP anticipate that the greater simplicity of UC (that reduces the number of different benefits interacting in complicated ways) will lead to a substantial increase in the take-up of currently unclaimed benefits, with most of the impact being at the lower end of the income distribution. This may affect some households that are entitled to, but are not taking up, any benefits in the current system. Also, for example, if a claimant is currently entitled to HB and JSA but only takes up their JSA, once UC has been introduced they would receive support for housing costs as it would be part of the same single claiming process. This increase in income may lead to positive impacts on health and other social impacts discussed in this report. By making the system simpler, DWP also expect to reduce the scope for fraud, error and overpayments. However, Adam and Browne (2012) raise concerns that keeping council tax support separate from UC, and allowing it to vary across GB, will undermine this simplification.
- DWP notes that conditionality requirements will be personalised to take account of caring responsibilities, and disability-related barriers to work, including mental health. DWP is also presently considering proposals on the implementation of tailored conditionality for UC claimants with drug and alcohol problems. The proposal is that tailored conditionality will apply to those who are dependent on drugs and alcohol and actively engaging in recovery-orientated treatment. Those claimants who are currently receiving treatment from an approved provider would be exempt from conditionality. The principle of tailoring benefit conditionality for those with a drug or alcohol misuse problem is welcomed by the Welsh Government as this will assist those who are actively in treatment services. However, information on the proposals is limited and whether this would lead to an increase in demand for service provision along with the implications for claimants on waiting lists would need to be assessed.
- Some of the welfare reforms may mean that certain claimants may automatically become eligible for passported benefits, which may lead to health improvements. For example, those moving from contributory to income-related ESA may become entitled to passported benefits such as FSM. However, if the overall numbers that are eligible for passported benefits increase,

this will put pressure on the Welsh Government to find more funding for these schemes. If this is not possible, the amount per eligible beneficiary may need to be recalculated, potentially risking the effectiveness of the schemes.

- The UK Government's aim is for the reforms to be successful in helping people to both move into and progress in work and to create a work-focused culture thereby reducing welfare dependency (e.g. encouraging ESA to be seen as a temporary benefit for most). There is good evidence to suggest that work is generally good for physical and mental health and well-being, including for disabled people and people with health conditions, and may help to promote recovery. Being out of work often leads to poorer health (e.g. increased alcohol consumption, smoking, and drug use) as well as other negative outcomes (Waddell and Burton, 2006; Morris et al., 1992; Lee et al., 2006; Peck and Plant, 1986; Advisory Council on the Misuse of Drugs, 1998). Indeed, some evidence suggests that unemployment is a particular risk factor for suicide (Barr et al., 2012).
- DWP estimate that UC will lead to an increase in employment due to:
  - improved financial incentives – once UC is fully implemented and individuals and employers have had time to respond to changes, overall DWP estimate that the change in financial incentives will result in a net reduction in the number of workless people by 100,000 to 300,000 in GB (DWP, 2012h). In addition, DWP estimate that people already employed will increase their hours by a total of 1–2.5 million hours per week. Both of these estimates take into account cases where some people are likely to move out of work and where a reduction in hours may be likely (e.g. people currently working at the tax credit thresholds may respond to UC by decreasing their hours worked)
  - a simpler and more transparent system – the above estimates do not take into account non-financial aspects of UC, which DWP suggest would increase the overall impact. For example, improvements in simplicity and transparency and a smoother transition into work are estimated by DWP to increase the number of people in work in Britain by 50,000 to 100,000. However, this should be regarded as indicative. DWP refer to evidence that suggests that people may be deterred from working even when they would be financially better off in work because of a lack of knowledge on how much better off

they would be in work and due to the administrative costs and risks associated with moving into work (Bashir et al., 2011; Purdon and Hales, 2003; Brewer et al., 2009; Sims et al., 2010). Other initiatives have also attempted to deal with this issue with significant positive impacts realised (Cebulla et al., 2008)

- changes to the requirements placed on people – based on the effectiveness of the mandatory work search elements (as well as a number of other changes to benefit rules) introduced with JSA (Rayner et al., 2000; Middlemas, 2006), DWP anticipate that the conditionality requirements associated with UC will result in 50,000–100,000 people moving into employment. However, they note that it is difficult to assess the extent to which this impact would be additional to the other financial and non-financial incentives outlined above.
- As well as UC, DWP are introducing the benefit cap so that households on out-of-work benefits will no longer receive more in welfare payments than the average weekly wage for working households, with the aim of making starting work more attractive. DWP have noted that support (via Jobcentre Plus and its partners) will be provided to those households identified as potentially being affected by the cap to help them move into or closer to the labour market. Of the 58,000 claimants in GB that were informed by DWP between 4 May and 6 July 2012 that they may be affected by the cap, indicative information suggests that approximately 1,700 claimants have moved into work and a further 5,000 have indicated they would like support to get back into work (DWP, 2012c).
- As mentioned previously, the Welsh Government has commissioned the IFS to undertake a research study to assess the labour market impacts of the welfare reforms (including UC). This research predicts that there will be a fairly modest impact on labour supply in Wales. For example, their central scenario (including UC) predicts an increase in working-age employment of 0.3 percentage points or around 5,000 people. However, there remains a high degree of uncertainty regarding the size of the labour supply effect. The full analysis can be found in Adam and Phillips (2013).
- Some stakeholders who participated in the research to assess the impact of the DLA reforms in Wales (undertaken by London Economics Wales) believe that the reforms will have a positive effect on employment. This is consistent with DWP's aim to

improve the understanding of the benefit including that it is available in work. It is therefore possible that this will lead to more disabled people moving into work.

- However, as well as wider economic conditions, the potential for increases in employment will be highly influenced by factors such as public transport, affordable childcare (which will be hit by the cuts to the childcare element of WTC but improved to some extent by the childcare support arrangements under UC) and – in some cases – an engrained benefits culture. Although 67 per cent of non-working benefit claimants interviewed by Trinh and Ginnis (2012) expressed positive attitudes to work agreeing that this would make them happier, at the same time respondents acknowledged that it would be difficult for them to start work<sup>64</sup>. Also, some of those already in employment may find it harder to remain in employment if they lose their DLA eligibility for example, which may mean that they are no longer able to afford the extra costs incurred as a result of their disability. Furthermore, in terms of wider economic conditions, Office for Budget Responsibility (2012) forecasts for the UK indicate that employment is unlikely to return to rates seen before the recession until some point after the end of their latest forecasting period, which goes up to quarter 1, 2018.

## Social care services

### Key reforms:

- UC
- replacement of DLA with PIP (for 16 to 64-year-olds)
- HB
- ILF.

### Potential impacts

**Distributional impact** – Evidence suggests that social care/work (for older people, people with disabilities, and children) is quite strongly related to low household income, with the poor often relying on these services for life necessities.

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<sup>64</sup> The survey population was households in receipt of at least one qualifying benefit or tax credit (JSA, WTC, IB, ESA, IS, Severe Disablement Allowance, CTC, and HB) in February/May 2011. The sample was randomly selected from DWP and HMRC claimant databases and covered GB. In total, 5,529 individuals in 4,315 households took part in the survey (this includes 1,249 interviews with the partners of main claimants). These findings relate to the non-working benefit claimants that were surveyed (i.e. all those not working and not in ESA support group, which equals 3,420 individuals).

## Negative

- Given the above relationship between income and social care, the negative impact of the welfare reforms on income and poverty in Wales is likely to result in increased demand for social care services. In particular, families with children are expected to be hardest hit by the benefit changes, which may put particular pressure on children's services.
- In the case of the DLA reforms, a number of research studies have suggested that there may be a link between demand for social care services and changes in eligibility for DLA. For example, in discussions with Attendance Allowance (AA)/DLA recipients, Corden et al. (2010) found that the benefits were seen as having a preventative role in helping people avoid moves into residential care or nursing homes, and maintain or avoid deterioration in health. While AA/DLA often does not go directly towards paying for personal care, the benefits were viewed as having a key role in reducing demand for formal care by enabling people to find their own solutions in the market place or from voluntary organisations, which are often not cost-free. Furthermore, scenario analysis by London Economics (2011a) suggests that the reforms to DLA could lead to additional spend, by 2030, on non-residential care services in Wales of up to £74 million depending on what assumptions are made about the take-up of such services. This is a 32 per cent increase on the baseline spend on social care services in Wales (£228 million per year). However, many of the stakeholders interviewed by London Economics (2011a) suggest that there is unlikely to be any significant impact on the demand for social care services in the short term. This is because those who lose eligibility for DLA/PIP are expected to have relatively low levels of need (especially given the focus of PIP on those with greatest needs) and will therefore be unlikely to meet the eligibility thresholds for LA care services. However, the longer-term position may differ given that loss of eligibility to DLA may in itself lead to deteriorating health, thereby potentially increasing demand and eligibility for both DLA and LA care services in the future.
- If the net cumulative impact of the welfare reforms is poorer health outcomes, this will lead to even greater pressures in the longer term on social services.
- There may be an impact on informal carers (e.g. families or neighbours) who could be further relied upon as benefit claimants

lose (some or all) of the financial support and services they once relied on. For example, DLA is known to be used for purchasing a range of support services by those ineligible for formal social care funding. The cuts to this benefit may therefore trigger a further increase in the reliance on informal care, which may subsequently have a negative impact on carers' health (e.g. stress, delaying own access to health services for health complaints, etc.). However, at the same time, changes such as increasing the level of non-dependant deductions for those aged over 18 years old who live in households in receipt of benefits may mean that young informal carers within the family may move. Also, carers themselves may be directly affected by the welfare reforms. For example, Carer's Allowance is currently awarded to unpaid carers who regularly spend at least 35 hours a week caring for a severely disabled person who receives a qualifying benefit. The qualifying benefits include DLA. Therefore, the reduction in those likely to be eligible for PIP will presumably also mean a change in the caseload of carers eligible for the Carer's Allowance. Carers may also be affected by conditionality requirements. For example, they will have to be available to work when their child is 5 years old rather than 7 years old. This is likely to make it harder for family and friends to step in and bring up vulnerable children, potentially resulting in higher numbers of children in care.

- Other households receiving social care may themselves lose informal support networks, or see formal care delivery disrupted through relocation. For example, the increases to non-dependant deductions may also mean that single vulnerable adults move away from the family home and the support it provides. Disabled people under-occupying in the social rented sector may be forced to move to a smaller property. As well as claimants potentially losing their current informal/formal care, LAs may also be faced with the additional cost of reassessing care and support packages (as there are variations in care criteria and service levels between LAs) and adapting the new property to ensure that it is accessible for people with disabilities (although discretionary help will be available via the DHP fund). Any potential gaps and delays in new arrangements being put in place may cause distress to the individual. This migration effect will impact on the distribution of service needs across Wales with some areas potentially facing additional service pressures. On the other hand, some households may move to maintain such links but with a risk of disruption to the existing services they receive.



- The under-occupancy rules in the social rented sector may lead to existing carers giving up their roles as well as discouraging prospective foster carers, which will increase the already short supply in Wales. However, an additional £30 million of DHP will be made available in 2013/14 and 2014/15 for those who are affected by these rules and have fostering commitments.
- Concerns have been raised about the support needs of those who would have been eligible for additional support from the ILF, but who have been unable to access this following the closure of the Fund to new applicants in June 2010. This may have created additional demand for social care services such as residential care given that disabled people would no longer be able to apply for support from this source to enable them to live in their communities. However, the ILF awards are discretionary and are meant to be over and above provision by social services. Therefore, this raises the question of who will meet those 'discretionary' needs once the ILF has closed. The UK Government confirmed, in December 2012, that the ILF would close in April 2015, with funding to support ILF users in Wales being transferred to the Welsh Government. The ILF currently supports some 1,900 severely disabled people in Wales at a total cost of £35 million a year. Welsh Ministers will need to decide how best to allocate this funding in an equitable way following the transfer. The exact impact of these changes on existing ILF users, and on social services in Wales more generally, is difficult to predict.
- The changes to HB may mean that extended families may need to set up separate households, potentially increasing pressures on social services departments for elderly care (DWP, 2010b).
- There may be a reduction in people's ability to contribute to the cost of their social care as a result of changes in benefit income (and savings).
- There may be issues regarding the payment of UC for those claiming as a couple as (in most cases) this will be made as a single payment to one household member only. DWP note that UC will be made to an account nominated by household members. Some interested parties (e.g. Oxfam<sup>65</sup>) have suggested that this is likely to be the male's account. In some cases, this may

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<sup>65</sup> Oxfam estimates that 80 per cent of UC claims made jointly by couples would be paid in the name of the male member of the couple. See Brown, CW, 'Should Mum Get the Credit? The impact of paying tax credits directly to mothers', University of Glasgow presentation.



increase the risk that money allocated for childcare and other children's needs may not reach them. Indeed research by Goode et al. (1998) finds that women are more likely than men to spend their income on children and family needs. There may also be additional demand placed on Welsh Government-funded programmes that provide support for childcare given the reduction of the childcare subsidy under WTC from 80 per cent to 70 per cent in April 2011. This is in addition to the impact of the changes to IS for lone parents. Furthermore, Groucutt and Smith (2011) suggest that UC will lead to a reduction in childcare support for many working families. However, conversely, DWP (2011e) in their Equality Impact Assessment for UC note that childcare support will be incorporated into UC and will be particularly beneficial for lone parents.

### Positive

- If the UK Government's welfare reforms, through stronger work incentives, are effective in encouraging and maintaining more people in employment, this could have a positive impact both for those affected and for overall service needs and demand.

## Housing

### Key reforms:

- UC
- HB – restricting LHA levels to the 4-bedroom rate and applying maximum weekly caps; removing the provision for claimants to retain a maximum of £15 per week where their rent is below the LHA rate; changing the basis for setting LHA rates from the median to the thirtieth percentile of local market rents; increasing non-dependant deductions; increasing the age threshold for the shared accommodation rate from 25 to 35; up-rating LHA rates by the CPI in 2013–14 (and 1 per cent in the following two years); and, limiting the amount of HB paid to claimants who are under-occupying in the social rented sector
- Household Benefit Cap
- SMI – owner occupiers
- successor arrangements to CTB.

### Potential impacts

**Distributional impact** – Evidence such as that by Hastings et al. (2012), suggests that, not surprisingly, services associated with social housing are used disproportionately by more disadvantaged groups.

These services are therefore considered as progressive (i.e. pro-poor), and could potentially experience increased demand as a result of the welfare reforms given that they are expected to lead to an increase in poverty in Wales.

### Negative

- There may be possible increases in housing rent arrears, evictions and homelessness due to benefit cuts (DWP, 2010b), direct payments to claimants (rather than to landlords), monthly rather than fortnightly payments, and sanctions, which may create budgeting challenges. Indeed, a report by Ipsos Mori and the Cambridge Centre for Housing and Planning Research (2013) found that 84 per cent of (232) housing associations surveyed in England in autumn 2012 believe that rent arrears will increase as a direct result of the welfare changes. The average increase expected is 51 per cent. In addition, changes to SMI under UC may reduce the amount of help received by claimants for housing costs (e.g. time-limiting support to claimants in the full conditionality group and a zero-earning rule that means that a UC claimant who is an owner occupier and who is receiving help with housing costs will not receive help with their housing costs if they are doing any paid work). Subsequently, housing affordability and choice may deteriorate as a result of the welfare reforms.
- Early research for DWP on the impact of the HB reforms reports that 66 per cent of surveyed<sup>66</sup> tenants had a shortfall between their LHA and their rent, necessitating the use of other benefits and loans from family and friends to make up the shortfall. Furthermore, more than 40 per cent of surveyed claimants found it difficult to afford the rent charged for their current accommodation, although only 10 per cent were in arrears, with 2 per cent of these reporting that a cut in HB was the single most important reason why they were behind with their rent (Beatty et al., 2012). However, the full impacts of the HB reforms are yet to be felt due to transitional protection and the ability of LAs to bring forward under-spend in DHP funds from 2011–12 to 2012–13.

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<sup>66</sup> The survey of HB claimants receiving LHA included 1,910 face-to-face interviews with claimants across 19 case study areas in GB (including three case study areas in Wales – Cardiff, Denbighshire and Rhondda Cynon Taff – with 301 interviews). The survey was undertaken in autumn 2011, several months after the LHA measures had been introduced for new claimants (from 1 April 2011), but before they had an impact on the rents and housing circumstances of existing claimants. The survey findings therefore concern emerging trends and early signs of impact only.

- The above effects may mean that landlords incur additional costs in rent collection and managing tenancies. This may lead to a reduction in properties let to LHA tenants in the private rented sector, which may in turn increase demand for properties in the social rented sector. However, early research by Beatty et al. (2012) suggests that the majority of surveyed landlords<sup>67</sup> (78 per cent) in Wales intend to continue letting to tenants who claim HB in the next year. It appears that a secure rental stream is more important than the source of tenants' income (53 per cent of landlords in Wales mentioned this as a reason). The importance of secure rental payments is also reinforced by the finding that 40 per cent of landlords mentioned direct rent payments to landlords as a factor in their decision to continue letting to LHA tenants. This decision also appears to be influenced by many landlords not wanting to invest an undue amount of time finding alternative tenants. Indeed, 42 per cent of landlords in Wales mentioned HB/LHA tenants forming a large part of the rental market as a reason for intending to continuing to let to such tenants, and 20 per cent referred to the fact that these tenants formed a substantial part of their lettings. For those landlords who intend to cease letting to tenants who claim HB, the two main reasons given were concerns over rent arrears and the changes to the HB/LHA rules.
- Large properties may be divided into bedsits or houses of multiple occupations because landlords will not get additional benefit for homes larger than four bedrooms due to a cap applied in April 2011. Therefore, there may be a shortage of properties for five-bed families.
- In January 2012, the age threshold for the HB shared accommodation rate (SAR) was increased from 25 to 35. This means that single people under 35 years old will be paid the shared room rate of LHA regardless of the property they occupy. Some claimants may be willing and able to make up the shortfall between their rent and benefit entitlement in order to remain in their self-contained accommodation. However, this may raise the likelihood of debt. Those unable to meet the shortfall will need to seek shared accommodation. However, this may lead to a number of problems. For example, given that the availability of shared accommodation for claimants prior to

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<sup>67</sup> In total, there were 1,867 respondents to the postal survey of landlords across all 19 case study areas in GB (including 288 responses from landlords in the three case study areas in Wales), which was carried out between September and October 2011.

this policy change was limited, the increased demand resulting from the numbers affected by the SAR extension (3,080 LHA recipients in Wales) will make this situation worse. Furthermore, research by the Centre for Housing Policy at the University of York (2011) found that moves into shared accommodation with strangers, which are unplanned or made in haste as a result of a crisis, can cause difficulties in relation to security, personal safety, crime and sustaining contact with children. Unplanned moves to 'stranger' shares are reported to be the most problematic in relation to sustaining tenancies. The same research also raises concerns regarding the suitability of shared accommodation for vulnerable groups (e.g. claimants with addictions or mental ill-health). As well as impacts on claimant well-being and homelessness, implications for those providing support services are identified, with such services considered to play an important role in mitigating the difficulties that claimants may experience in finding and sustaining shared tenancies. However, the research identified serious concerns that a number of claimants with a variety of support needs up to the age of 35 will not be able to benefit from such assistance due to the demand for such services outstripping capacity.

- The welfare reforms (in particular the Household Benefit Cap, the changes to HB and successor arrangements for CTB) may lead to the migration of families to cheaper localities (incurring the costs associated with moving); an increase in the use of bed and breakfast and temporary accommodation where supply is unable to meet demand (reversing trends over recent years in Wales); and/or reduced access to larger housing and overcrowding in lower-cost, but smaller and possibly poor-quality properties (particularly in the case of large-family households, which implies that households from certain ethnic minorities that tend to have a higher proportion of large families are more likely to be affected<sup>68</sup>). In some cases, the squeeze on household budgets may increase the risk of young people being forced to leave home as parents are unable to support them. All of these effects may result in negative consequences for health, well-being and education.

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<sup>68</sup> The Office for National Statistics (2005) finds that Asian households are larger than households of any other ethnic group.

- There is the potential for a migration of benefit claimants from areas with a high cost of living to more affordable and often already deprived localities (where strong competition for public resources may already exist), which may have implications for regeneration. In some cases, claimants may have to move outside an affordable commute to their current jobs, and to areas with fewer labour market opportunities. These moves will also impact on schools and children's and adults' services (as mentioned below). However, early research by Beatty et al. (2012) for DWP indicates that a very small percentage (3 per cent) of those surveyed in GB (excluding London) had moved home in order to make up the shortfall between their rent and the LHA. This research also suggests that claimants are reluctant to consider moving outside of their local area. The most popular reasons provided include: wanting to remain close to family; preferring local area/like living there; and, wanting to remain close to schools/good schools. Follow-up research for DWP will track these impacts over the longer term, and as further reforms take effect. In addition, as average rents in Wales are lower than in the UK as a whole, this migration effect is likely to be less visible within Wales. However, there may be inward migration from claimants living in high-rent areas.
- Forty-six per cent of working-age HB claimants in the social rented sector in Wales will see their HB reduced by a proportion of their rent from April 2013 (average weekly income losses are estimated at £12) as they will be deemed to be under-occupying their property. Affected households may decide to continue to live in their accommodation and make up any shortfall from other income, savings, moving into work, increasing their hours, or letting out a spare room. Alternatively, they may move into a smaller property depending on availability. Research by the Housing Futures Network investigated the potential behavioural responses of a sample of under-occupying tenants. This suggests that around 35 per cent of households would be quite or very likely to fall into arrears if their HB was reduced (affecting the cash flow of social landlords); nearly 30 per cent would be quite or very likely to move into work or increase their hours (subject to availability); 10–15 per cent would offer their spare room to a lodger/family member; and, around 25 per cent would be quite or very likely to move to a smaller property. However, there may be an insufficient supply of suitable properties to enable tenants

to move to accommodation of an appropriate size even if tenants were willing to move. Individuals may therefore have to look further afield or move to a private rented sector landlord, who in some instances may not be willing to let to welfare recipients.

- The introduction of the size criteria in the social rented sector is anticipated to have a significant impact for more than 60 per cent of 232 housing associations in England that were surveyed by Ipsos Mori (2013). The size criteria may also result in additional costs to run schemes to enable affected tenants to move within the sector. In addition, there may be an increase in demand for advice from social landlords in relation to the benefit changes and debt concerns, along with the potential for increased arrears making it harder for landlords to meet their loan covenants imposed by lenders (which place limits on the ratio of debts to assets that an association can reach). Furthermore, housing associations are expecting to spend an average of around £53,000 up to April 2013 on additional resources in preparation for welfare reform, with the majority of this extra spend (66 per cent) made up of staff costs followed by rent collection and other associated costs (26 per cent), and IT and legal costs (8 per cent) (Ipsos Mori and the Cambridge Centre for Housing and Planning Research, 2013).
- There may be a negative impact of the direct payment of benefits to claimants in the social rented sector on the collection of rents (Residential Landlords Association, 2012). Indeed, a survey by Ipsos Mori (2013) found that of all the reforms, the introduction of direct payments to tenants is expected to have the biggest impact, with more than 80 per cent of housing associations surveyed saying it will affect their organisations a great deal or a fair amount. However, the UK Government aims to design UC with safeguards for landlords (e.g. a mechanism for 'switching back' the payment of HB to the landlord, or exemption from direct payments for people particularly vulnerable to accruing arrears – however, it appears that these exceptional arrangements will be time-limited). DWP are running a number of pilot projects (including one in Torfaen in Wales) to test how claimants can manage their HB through direct monthly payments. The projects are taking place from June 2012 until June 2013, and will be evaluated by the Centre for Regional Economic and Social Research at Sheffield Hallam University, Ipsos Mori and the Oxford

Institute of Social Policy, University of Oxford. The first output from this evaluation was published in December 2012. The key findings for Torfaen<sup>69</sup> are as follows.

- The transition to direct payments: 61 per cent of respondents reported knowing ‘not very much’ or ‘nothing at all’ about how HB works while the equivalent figure for the Direct Payments Demonstration Project (DPDP) was 57 per cent. However, communication strategies are still ongoing. Although more than half of respondents (55 per cent) thought they would cope ‘well’ with the shift to direct payments, 31 per cent thought they would cope ‘poorly’. Thirty-nine per cent said it would be ‘difficult’ to manage their finances. Furthermore, 28 per cent of all respondents reported that they would need support with direct payments. Of these, 36 per cent said they would need a ‘great deal’ of support and 39 per cent thought they would need support for the long term. By far the most commonly desired method of communication for support services is face-to-face (74 per cent).
- Rent affordability and rent arrears: 76 per cent of respondents were on full HB (their HB covered all of their rent) while 24 per cent were on partial HB, and therefore making a contribution to their rent. Forty-two per cent of respondents on partial HB reported that it was ‘easy’, and 36 per cent that it was ‘difficult’ to afford their rent (the latter represents the highest proportion out of the five case study areas). Nineteen per cent of all respondents were not up to date with their rent, around double that found in a survey of LHA recipients in the private rented sector (see above). The most commonly mentioned reason (29 per cent – five case study areas as a whole) for the rent arrears was a drop in income (due to redundancy, sickness or disability, relationship breakdown, or other reasons), followed by problems with administration of HB (22 per cent – five case study areas as a whole).

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<sup>69</sup> Except for those otherwise indicated for the five case study areas as a whole. The research involved a baseline survey of 1,639 tenants in five English and Welsh project areas; 324 of these tenants were in the Torfaen project area. The survey was conducted in May and June 2012, prior to the introduction of direct payments. The research also involved an analysis of landlord rent accounts and management costs; longitudinal qualitative work with tenants and ‘local’ stakeholders; and one-off qualitative interviews with tenants and ‘external’ stakeholders.



- Managing money: the majority of respondents (79 per cent) had at least one bank or building society account and most (77 per cent) paid bills by direct debits or standing orders. Despite the use of bank accounts and automated payment methods for some bills, cash was the most common way in which respondents paid for food and other day-to-day items as well as other items of expenditure. Cash was also the most common way in which tenants on partial HB paid their rent (five case study areas as a whole). Around seven out of ten kept a regular spending limit to help manage finances. By far the most common period for regular spending limits was weekly, followed by fortnightly. Very few respondents had a four-weekly or monthly spending limit (five case study areas as a whole). This suggests that the shift to less frequent benefit payment periods will require a rethinking of the time period over which tenants budget their finances. Clearly keeping expenditure within these spending limits is important: the majority of tenants reported that they generally manage to do this. However, more than half of all tenants had run out of money 'often' during the previous 12 months, and 27 per cent felt they were managing 'poorly' financially.
- Savings and debt: the research found that respondents were more likely to have debts defined as behind with payments for household bills or childcare, excluding rent arrears (41 per cent), than savings (5 per cent). The proportion of tenants who had both rent arrears and other kinds of debt (32 per cent – five case study areas as a whole) was more than double the proportion who only had rent arrears (15 per cent – five case study areas as a whole). Thirty-five per cent of respondents had automatic deductions taken from their earnings or benefits to pay back arrears or other debts. Forty-one per cent of respondents had sought advice about money management, bank accounts or debt problems at some point, with the main source of advice from the Citizens Advice Bureau.

### Positive

- There will be an increase in the budget for DHP to support those who are hardest hit. However, as announced in the Autumn Statement 2012, the budget will not be increased as much as originally intended because some of this funding will now be used to cover revisions to the household benefit cap exemptions.



Furthermore, this funding will only act as a short-term solution. Taking these recent changes into account, the DHP fund will be increased across the UK from £20 million in 2010–11 to:

- 2011–12: £30 million
- 2012–13: £60 million
- 2013–14: £155 million
- 2014–15: £125 million.

- Existing claimants affected by the April 2011 HB changes would have received transitional protection based on their LHA rate for up to nine months. This would have given claimants time to plan for a reduction in their benefit entitlement. However, without advice and support some households might have failed to plan ahead or may have been unable to find suitable accommodation, increasing their risk of becoming homeless.
- The HB changes may place increased pressure on landlords to reduce rent levels. Although this would have a negative impact on landlords as they would receive a lower income from their properties, this would be beneficial for benefit claimants. Indeed, Beatty et al. (2012) report that a quarter of the claimants that they surveyed to assess the early impacts of the HB reforms had tried to negotiate with their landlord over rent levels, with two out of five claimants successful in getting their rent reduced.
- There is some early evidence that shortfalls in rent have also affected some claimants' work behaviour. Survey work to monitor the impact of changes to the LHA system of HB reports that over a quarter of claimants with a shortfall said they had looked for a job to make up the difference and about one in ten had looked for a better-paid job to help make up the shortfall (Beatty et al., 2012).
- The move to set LHA rates annually (rather than monthly) will give claimants greater certainty over their benefit entitlement and will also provide greater clarity for landlords so they can plan accordingly (DWP, 2012a).
- HB reforms, such as the under-occupancy rule, that may result in claimants moving within or out of the social rented sector to the private rented sector will free up accommodation in the former sector that can be re-let to other families in need of this accommodation. These households may be living in unsuitable accommodation (e.g. overcrowded conditions or temporary accommodation) and would benefit from this larger-sized

accommodation. This may lead to a better matching of the size of the accommodation to the needs of tenants in the social rented sector, therefore producing a more efficient use of social housing.

- In order to mitigate the impact of the HB changes, the Welsh Government is providing, over two years, £1.4 million to LAs for a programme of approved work with landlords and tenants with the intention that tenancies can be sustained. The principal purpose of these grants is for LAs to prevent homelessness as a result of the changes to the HB regime. Specifically, they involve identifying and working with vulnerable people; working with private landlords; working across departmental boundaries; working with external partners; and the adaptation of HB team practices. In order to understand the effects of this grant funding, and to maximise learning for LAs about the effectiveness of different approaches, monitoring and evaluation work is currently underway with findings due to be published in Spring 2013. With the aim of mitigating the risk of households becoming homeless as a result of the HB changes, DWP are also undertaking awareness-raising measures, working with the homelessness and advice sector, and supporting LAs (DWP, 2010b).

## Education and training

### Key reforms:

- UC (particularly conditionality requirements)
- Work Programme
- HB.

### Potential impacts

**Distributional impact** – Research on the role of parental income on children’s education documents a strong association (Conley, 2001; Loke and Sacco, 2010; Zhan and Sherraden, 2003; Orr, 2003; Williams Shanks, 2007; Yeung and Conley, 2008; Zhan, 2006; Lovenheim, 2011; Karagiannaki, 2012). However, parental income is just one of a number of factors influencing children’s educational outcomes (e.g. parental ability/education). Furthermore, some of the behavioural responses by parents that are induced by changes in income are unclear. Therefore, the exact impact of a change in income on educational attainment is not straightforward. However, given that, on average, children from poorer backgrounds

have worse educational attainments than their better-off peers, a reduction in the incomes of these already relatively poor households could potentially make this situation worse.

### Negative

- Families unable to afford their rent as a result of the HB reforms may be forced to move home. This may lead to an increased concentration of workless, low-income and larger families in less-expensive and already-deprived areas in Wales with reduced access to high-performing schools and their associated positive educational outcomes (Cassen and Kingdon, 2007). This population movement may increase the pressures on school places in some areas, and at varying stages of the school year. The lack of continuity of educational provision and stability may also have negative impacts, particularly for those with special educational needs who depend on continuity of provision and also for those approaching exams. Indeed, research undertaken by Hutchings et al. (2012) suggests that there is a negative effect on attainment from moving house, particularly following a large number of moves. Department for Education analysis of the Longitudinal Study of Young People in England dataset also suggests that secondary learners moving school between Years 7 and 9 saw a 16-point decrease in the average GCSE point score, while learners in Years 10 and 11 saw a greater decrease of 61 points. However, these figures may be overstated due to the analysis being unable to control for factors such as family breakdown (DWP, 2010b). There is also evidence that suggests that a critical factor contributing to a young person not being in education, employment or training (NEET) is associated with the family's circumstances, and whether families moved home frequently as a result of their tenancy agreement coming to an end (DWP, 2010b). House moves may also result in the loss of a spare room used as a study area, and in some cases may affect the ability of non-dependant children to stay at home and attend further education. On the other hand, those who choose to stay in their local areas may find themselves living in increasingly overcrowded or substandard accommodation, which could potentially lead to poorer health and educational outcomes for children.
- Current eligibility criteria for FSM are based on being in receipt of some out of work benefits and/or tax credits. The UK Government's proposal to introduce UC from 2013 will mean

the current criteria for identifying entitlement will no longer exist. In order to continue the provision of this benefit, the Welsh Government is currently developing new entitlement criteria to take account of the introduction of the UC system. Although the Welsh Government's aim is to ensure that broadly the same number of children will receive FSM as would have received FSM if UC had not been introduced, there is the possibility that there will be some losers (and winners). As well as the changes to passported benefits eligibility criteria, the welfare reforms will result in the removal of benefits from some claimants. In addition to this direct impact, there may also be an additional indirect income effect since eligibility to one benefit (e.g. DLA/PIP) often acts as a passport to other benefits and allowances such as FSM.

- In the event that there are claimants that lose entitlement to FSM, they may see a knock-on impact on educational outcomes. Between autumn 2009 and summer 2011, a two-year pilot was undertaken in three LAs to assess the impact of FSM on a range of learner outcomes. As part of the pilot FSM provision was extended via two different approaches. In the LAs piloting a 'universal' offer (Newham and Durham), all primary school children were offered FSM. In the third area (Wolverhampton), entitlement was extended to cover learners in primary and secondary schools whose families were on WTC whose annual income did not exceed £16,040 (up-rated to £16,190 in 2010–11)<sup>70</sup>. The pilot also included a range of supporting activities to encourage take-up of school meals and to make parents aware of the pilot. Brown (2012b) found that the universal pilot was very successful at increasing take-up of FSM and had a significant positive impact on attainment for primary school learners at Key Stages 1 and 2, with learners in these areas making between four and eight weeks' more progress over the two-year period than similar learners in comparison areas. The improvements in attainment tended to be more pronounced for learners from less affluent families and among those with lower prior attainment. However, the extended entitlement pilot did not succeed in significantly increasing take-up and had no significant effect on educational attainment for either primary or secondary learners. The attainment improvements found in the universal pilot areas do not appear to have been driven by

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<sup>70</sup> Prior to the pilot, learners were entitled to FSM if their parents claimed means-tested out-of-work benefits (such as IS) or CTC (and not WTC) with an annual income of no more than £16,190. Children who received a qualifying benefit in their own right are also entitled to receive FSM.

increased time spent in school, as neither pilot led to a significant reduction in absence rates. This suggests that the attainment increases are a result of improvements in productivity in school, although the source of these productivity improvements is not clear. However, it appears that universality and the associated activities undertaken in the universal pilot areas may be key to the improvements in attainment.

- Other education-related passported benefits include the School Uniform Grant and the Remission of Charges for School Residential Trips. If more families become entitled to these schemes due to changes in eligibility criteria under UC, this could put more pressure on Welsh Government and school budgets. Conversely, if fewer families are entitled, this will increase the financial hardship for families on low incomes, which will in turn impact on poverty. In the case of the School Uniform Grant, there may be an increase in learners not dressed in school uniform or appropriate attire for school which could lead to school sanctions for non-compliance with school uniform rules, bullying, truancy, low self-esteem and disruptive behaviour.
- The National Audit Office (NAO) has published commentary on the Work Programme outcome statistics for the Committee of Public Accounts. The statistics for Wales are as follows. There were 3,510 referrals<sup>71</sup> to the Work Programme in June 2011, of these 6.8 per cent resulted in a job outcome<sup>72</sup> within a year (GB: 74,680 referrals, 8.6 per cent resulting in a job outcome within a year). Of the 4,940 referrals in Wales in July 2011, 6.5 per cent resulted in a job outcome within a year (GB: 99,250 referrals, 8.1 per cent resulting in a job outcome within a year). Although DWP has not published targets against which to assess progress by the end of July 2012, the NAO has assessed progress against two measures – the equivalent of DWP’s minimum performance level for job outcomes and an estimate based on DWP’s core assumptions about performance that was made when the programme was designed. The NAO’s commentary suggests that performance to date (measured by job outcomes as a proportion of all referrals to the end of July 2012, i.e. GB 3.6 per cent, Wales 3.1 per cent) has been much lower than the minimum requirement for the programme (9.7 per cent)

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<sup>71</sup>Eligible claimants referred by Jobcentre Plus.

<sup>72</sup>Job outcomes are achieved following three or six months’ employment dependent on payment group.

and DWP's core expectation (11.9 per cent). The commentary also notes that performance of the largest group (participants aged 25 and over claiming JSA, 3.4 per cent) is less than the estimated non-intervention rate – the number of people who would have found sustained work had the programme not been running (9.2 per cent).

- According to the NAO, performance to the end of July 2012 is likely to be understated due to time lags and data exclusions. However, they note that this does not account for the entire shortfall between expected and actual outcomes. Further explanations as to why performance was below expectations include early expectations being set too high, the need for some providers to improve performance, and harsher than expected economic conditions. When published, the findings from the recently announced inquiry by the Welsh Affairs Committee into the Work Programme in Wales will further add to this evidence base on the performance of the programme.
- The tighter conditionality requirements for receipt of benefit could push up demand for information advice and guidance at a time when resources for careers services are reducing.
- The benefit cuts may have an impact on the calculation of residual income for determining eligibility for student finance statutory support or targeted allowances such as disabled students allowance, or Education Maintenance Allowances. Welsh Government officials are working with counterparts in DWP and the Department for Business, Innovation and Skills (BIS) to avoid financial implications. There may also be a greater call on Financial Contingency Funds (which is a limited, not demand-led fund, but increased demand due to benefit cuts might skew what it is used for and finish the fund earlier).

### Positive

- Skills Conditionality (SC) in Wales has been introduced through the Skills for Work (Wales) Programme, funded by DWP. The programme runs for 12 months from October 2012 and will be subject to evaluation to inform future discussions with the Welsh Government. Where skills barriers are identified as the main barrier to someone finding work, skills conditionality will require claimants to attend training to improve their basic skills (such as literacy and numeracy) and English for Speakers of other Languages, which may enhance their overall employability.

For example, DWP and BIS (2010c) note that the anticipated benefits of SC are a greater number of claimants participating in and completing training provision as part of their journey back to work, which is expected to result in more people improving their skills, leaving benefit and retaining employment for longer. DWP mention that this could help to reduce child poverty (by increasing parents' earnings) and may also improve the educational outcomes of children via inter-generational effects (e.g. upskilling parents, particularly those with basic skills needs, could allow them to play a greater role in their children's education – McNally et al., 2006). However, a research report for DWP on the JSA SC pilot, which was launched in April 2010 in 11 Jobcentre Plus districts within England, found that no impact was detected on training, sanctions or early labour market outcomes for individuals identified to have a potential skills need through basic skills screening. The research found that those claimants who were mandated were generally in favour of training, but said it did not always meet their needs or was not of the quality they would have liked. Although they were mandated to training, many said they would have attended in any case. Referral volumes were lower than expected for a number of reasons such as availability of provision. Few claimants had their benefits stopped for non-compliance, and a number were sanctioned for lateness or forgetting to attend rather than for rejecting the training offered. The report concludes that sanctions (that may be applied if claimants fail to attend or complete skills provision without good reason) can cause hardships to families and in many cases are unlikely to be effective in encouraging future compliance (Dorsett et al., 2011). However, DWP and BIS (2010c) note that valuable lessons have been learned from the implementation of this pilot, and these have been reflected in their approach for SC.

- DWP has confirmed that in Wales it is only implementing SC (i.e. compelling welfare recipients to participate) through programmes that the DWP itself funds. Therefore, this will currently avoid any potential direct impact of the SC policy on Welsh Government-funded provision.
- Some individuals who are currently eligible and utilising devolved welfare-to-work services will become eligible for DWP's Work Programme (delivered by Working Links and Rehab JobFit in Wales), thereby easing pressure and demand for Welsh Government services and enabling the Welsh Government



to target support on those who are not eligible for the Work Programme. However, a range of devolved services are still likely to be demanded by those not covered by the Work Programme.

## Economic development<sup>73</sup>

### Key reforms:

- all benefit and tax credit changes already, and due to be, implemented by the UK coalition government, in particular UC.

### Potential impacts

**Distributional impact** – As noted by Adam and Phillips (2013), there is clear evidence that the propensity to consume marginal income falls with the level of income. In other words, a £1 change in the income of a low-income family leads to a bigger change in their spending than a £1 change in the income of a higher-income family. This partly reflects the credit constraints faced by low-income families and so a fall in income feeds through into a reduction in spending. On the other hand, higher-income families may have the option of responding to a reduction in income partly by reducing savings or increasing borrowing. Therefore policy changes that mainly affect the incomes of poorer households may lead to a larger effect on the size of the economy than those targeted at higher-income households.

With regards to self-employment, there is evidence to suggest that business start-ups are positively related to income via the associations with education levels and easier access to finance.

### Negative

- Adam and Phillips (2013) estimate that the UK coalition government's welfare reforms announced before December's Autumn Statement will reduce total benefit and tax credit entitlements in Wales by around £520 million (or £590 million if UC is excluded). This corresponds to a loss of around £6.40 per family per week on average (or £7.26 if UC is excluded), roughly 1.5 per cent of their net income. The biggest average losses are expected to be experienced by low–middle income families. By family type, overall, the biggest average losses are likely to be incurred by non-working families with children. Pensioners, and families without children in which all adults work, will be largely protected from the cuts.

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<sup>73</sup>Some of this section has been drawn from the remainder of the Stage 2 research, which has been undertaken by the IFS. The full analysis can be found in Adam and Phillips (IFS, 2013) *An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales*.



- There is the possibility of negative spillover effects from the welfare reforms on the employment and wages of people who are not directly affected by the reforms, particularly during periods of high unemployment. For example, existing workers may find themselves 'crowded out' by those wishing to work longer hours or enter employment. The empirical evidence on spillover effects is mixed, with such effects likely to be context specific, depending on the particular reforms, groups affected and wider labour market conditions (Bartik, 2002; Lubotsky, 2004; Blundell et al., 2004; Riley and Young, 2000; Adam et al., 2008). Given the effects of the changes to work incentives and the subsequent labour supply responses in Wales as predicted by Adam and Phillips (2013), any negative spillover effects are likely to be concentrated among low–middle income/skill individuals. However, these spillover effects are likely to become less important over time as firms invest in new capital to complement the increased supply of labour.
- As noted by Adam and Philips (2013) wider economic impacts may be caused by changes in spending by those whose income is affected by the welfare reforms (whether directly through changes in entitlements, via changes in employment and hours of work, or via spillover effects). Furthermore, given that the welfare reforms are expected to lead to larger income losses for poorer households compared to richer households, the impact on spending and the size of the economy is likely to be larger than the effects of a policy targeted at reducing the incomes of higher-income families. This is because a £1 change in the income of a low-income household leads to a larger change in their spending/consumption than a £1 change in the income of a higher-income household.
- The Office for Budget Responsibility (2010) estimates that policy changes that have a direct effect of reducing welfare spending by 1 per cent of gross domestic product (GDP) such as those implemented or due to be implemented by the UK coalition government<sup>74</sup> will lead to a reduction in GDP of 0.6 per cent in the short run. However, as noted by Adam and Phillips (2013) other estimates by the IMF (2012) and also studies of periods of economic weakness (Auerbach and Gorodnichenko, 2012; Bachmann and Sims, 2011; and Shoag, 2010) suggest that the multiplier effects may be even larger.

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<sup>74</sup>The overall change in welfare spending is £16 billion (£18 billion in welfare cuts, slightly offset by the cost of UC, which is estimated at £2 billion). This is around 1 per cent of GDP (£1,600 billion).

- From April 2014, UC will introduce major changes for the self-employed, particularly the low paid. Some self-employed people under tax credits report very low levels of income and although the UK Government acknowledges that it can take some time before a new business becomes profitable, once established it expects to see a reasonable income from the business activity. Under UC, established self-employed claimants will be assumed to earn at least the Minimum Income Floor (MIF). Therefore, where households including at least one self-employed earner declare earnings below their MIF (including zero earnings), that individual will be assumed to be earning at the level of the MIF instead of at the level they have declared. The MIF will be based on the number of hours an individual is expected to work or be looking for work in UC multiplied by the National Minimum Wage for their age, minus notional income tax and National Insurance contributions<sup>75</sup>. This will apply to claimants in the All Work Related Requirements group. Claimants in other groups will have their UC award calculated on the actual earnings they report (rather than the MIF). In order to allow time to establish a business, new enterprise claimants within one year of starting out in self-employment will be eligible for a one-year start-up period within which the MIF will not be applied. During this period they will receive full UC for their circumstances and the income they report, subject to attendance at quarterly interviews ('gateway checks') where evidence will be requested to demonstrate that they are still trying to increase their income from self-employment. Claimants who are found to no longer satisfy the requirements of the gateway check will be required to seek other work and to satisfy full work-search and availability requirements. Furthermore, after the start-up period, there will be no relaxation of the MIF for periods when a business experiences a genuine dip in profits, or for periods when a business is reinvesting in order to expand, taking on a new employee, or in months when large items of expenditure are incurred which exceed trading receipts. These changes under UC could possibly increase the demand for Welsh Government business support services, particularly financial support.
- The above system may be an active deterrent to entrepreneurship. For example, the Low Incomes Tax Reform Group of the Chartered Institute of Taxation (2012b) argue that the MIF will act

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<sup>75</sup>DWP estimate that there will be around 600,000 households in the UK on UC with at least one individual whose main employment is self-employment and 370,000 of these will have an income below their personal capacity for full-time work paid at the national minimum wage (DWP, 2012).

as a major barrier to people pursuing self-employment and should only be applied where there is evidence that a business owner is manipulating profit in order to maximise their UC entitlement.

- Business support services may also be placed under further pressure as employers (with employees claiming UC) and self-employed claimants request information on, and support with, the new income reporting requirements. For employees there will be a real-time information feed. However, the draft UC regulations suggest that self-employed recipients will self-report their earnings and will be required to complete an additional online report to enable their UC award to be calculated (DWP, 2012n). Earnings will need to be reported each month and failure to do so within seven days of this timeframe will lead to payments being suspended. This increased administrative burden may prove to be a struggle for some businesses, particularly small businesses. Indeed the Confederation of British Industry (2012) and the Institute of Chartered Accountants (2012) have raised concerns about tight timetables and the increased administrative burdens. Businesses may need support to get the necessary information together to make a full and accurate report especially given the repercussions of failing to comply. This may also deter individuals from starting their own business.

### Positive

- As outlined in the remainder of the Stage 2 research undertaken by Phillips and Adam (2013), the welfare reforms are predicted to have a positive, albeit modest, impact on labour supply in Wales. Their central scenario (including UC) predicts an increase in working-age employment of 0.3 percentage points or around 5,000 people. However, there remains a great deal of uncertainty regarding the size of this impact. Labour demand will be an important influence on outcomes, particularly in the short term. Evidence suggests that weak labour demand (high unemployment) means a smaller increase in actual employment/hours than the increase in desired labour supply (i.e. involuntary unemployment). Other analysis on the impacts of the welfare reforms on employment can be found on pages 41–42. As well as increasing the number of jobs available, the type of jobs will also be fundamental in that they will need to cater for the different groups (in terms of skill levels, occupation, geography, experience, etc.) entering the labour market.

- Any resulting increase in the employment rate will have a direct positive impact on earnings and economic output in Wales. Adam and Phillips (2013) predict in their central scenario that gross earnings in Wales could increase modestly by up to £149 million (0.5 per cent) including UC in 2014–15. However, this positive impact may be offset by indirect negative spillover effects on others (e.g. lower wages and/or lower employment for other workers), as well as the direct (and indirect) income losses resulting from the benefit cuts.
- The introduction of the MIF for the self-employed aims to encourage self-employed claimants to increase their earnings, reduce fraud, and prevent long-term subsidy of activities that do not make the self-employed claimant financially self-sufficient. For example, where a self-employed claimant's declared earnings are lower than the MIF, the MIF will be used to calculate the claimant's UC award. Although some claimants may stop their self-employment activity and search for other work or not change their behaviour, DWP anticipate that others may respond by increasing their earnings from self-employment. DWP (2012h) note in their Impact Assessment of UC that it is difficult to estimate the impact of this on employment. DWP have also commissioned research to assess how UC implementation will affect the self-employed so lessons can be learned from this (Staniland, ongoing).

## Communities and Social Justice

### Key reforms:

- UC
- HB
- successor arrangements for CTB
- Social Fund.

### Potential impacts

**Distributional impact** – There are well-established socio-economic gradients in victimisation rates for personal and property crime. Crimes against the person and against property are both strongly geographically concentrated and tend to vary together (Trickett, Osborn, Seymour and Pease, 1992), with multiple victimisation common (Hope, Bevan, Trickett and Osborn, 2001). The general conclusion with regards to property crime is that it affects richer people in poorer areas. Criminality itself, in terms of propensity

to engage, is more associated with lower levels of affluence. For example, Machin and Meghir (2004) show that falls in income at the lower end of the distribution are geographically associated with rising crime rates. Levels of crime have been widely explored in relation to unemployment; unemployment has been positively correlated with acquisitive crime in numerous studies around the world (Raphael and Winter-Ebmer, 2001; Levitt, 2001; Gould et al., 2002) and in the UK (Home Office, 2003, 2007). This relationship, however, has been challenged and is complicated by other factors, precluding the use of unemployment as a predictive measure of crime.

The British Crime Survey has found that domestic abuse is more likely to have affected people on low incomes than others. However, this might not indicate that poverty itself is a risk factor. It could mean that domestic abuse had caused some of the low-income statuses (Coleman et al., 2007) and so it is difficult to determine the direction of the relationship. It appears that domestic abuse affects people in all classes and income brackets.

### Negative

- **Poverty** – As outlined in the Welsh Government’s report *Analysing the impact of the UK Government’s welfare reforms in Wales – Stage 1 analysis*, the tax and benefit changes announced by the UK Coalition Government up until summer 2011 are expected to increase poverty. Specifically, both Brewer et al. (2011) and HM Treasury (2011) estimate an increase in UK relative child poverty of around 100,000 in 2012–13. Based on proportionate shares adjusted for differences in poverty, the Welsh Government estimates that the tax and benefit reforms could increase relative child poverty by about 6,000 in 2012–13 with more substantial increases in 2013–14 as further reforms take effect. Moreover, the additional welfare cuts announced in the Autumn Statement 2012 are likely to further increase poverty. This clearly conflicts with the Welsh Government’s focus on protecting the vulnerable and tackling poverty. Programmes such as Families First will have a role to play in restricting rises in child poverty levels, and also in reducing inequalities arising out of poverty. Additionally, a number of LAs are already using Families First to mitigate the impact of financial instability by providing benefit and financial/debt advice to ensure that families’ incomes are maximised.

- **Financial inclusion** – There are implications for the number of people who are financially excluded and living in poverty, with the likelihood of reduced incomes as outlined in Section 1. This will therefore impact on Welsh Government policies for financial inclusion.

There may be an increase in the number of people who turn to high-cost lenders, possibly loan sharks and payday lenders, if they have had benefits cut or now have to pay a bill that they have never previously had to pay (e.g. Council Tax) and cannot access more affordable finance. Although there are no official statistics on the payday lending sector in the UK, estimates suggest that it has grown significantly since 2008, when the Office of Fair Trading (OFT) estimated it to be worth around £900 million. Consumer Focus estimated the total value of loans in 2009 to be £1.2 billion, while more recent media reports have suggested it is in the range of £1.7–1.9 billion. The welfare cuts may further increase demand for such loans over the next few years. However, the OFT is conducting an extensive review of compliance by the payday lending sector prompted partly by concerns that some payday lenders are taking advantage of people in financial difficulty.

- **Benefit/debt advice** – There is likely to be an increase in demand for debt and benefit advice services as a result of changes to benefits and loss of household income. Also, the changes in legal aid from April 2013 will impact on people's ability to access support due to the removal of free welfare benefits advice. As welfare benefits advice is not a statutory duty for LAs, not all LAs have advisors or fund them externally in the third sector. Given the level of successful challenges currently to WCA and ESA decisions, this will impact on household incomes as the support to challenge will be eroded later this year.

Statistics published by the Citizens Advice Bureaux (CAB) (England and Wales) show that benefit and tax credit advice was up 8 per cent in July–September 2012 compared to the same quarter a year ago. This represents 36 per cent of the total volume of advice, making it the number one issue for clients (ahead of debt advice which accounts for 30 per cent). Demand for ESA advice is driving this increase. It rose by 66 per cent over this period to 113,000 problems, relating to 63,000 clients. Appeals against ESA decisions accounted for 23,000 of these problems (an increase of over 80 per cent), which are often complex and time-consuming.

As well as the additional stress and hardship that these problems cause CAB clients, it also places significant pressure on already overstretched services. In order to assist the work that CAB are undertaking across Wales in supporting the most vulnerable and disadvantaged people, the Welsh Government is providing over £6 million of funding to Citizens Advice Cymru over the next three financial years.

The Welsh Government is also undertaking a Review of Advice Services (e.g. welfare rights, debt, housing, employment, consumer, and discrimination), which is due to be published in spring 2013. It is examining the effectiveness of information and advice services in meeting the needs of people in Wales and will make recommendations on how to improve advice services in Wales.

- **Social Fund** – The Welfare Reform Act 2012 abolishes the Social Fund from 31 March 2013 and the discretionary elements of the fund (Crisis Loans and Community Care Grants) will be transferred to the Welsh Government. DWP has provided indicative amounts for the funding of the Social Fund to be transferred to Wales from 2013. These are based on previous spend in Wales between April 2011 and September 2011. The proposed amounts are £10.2 million for the programme funding and £2 million for administrative funding in both 2013–14 and 2014–15. In addition £102,605 will be transferred for set-up funding. This compares to a programme spend (on those elements being transferred) in Wales of £11.7 million in 2011–12. A replacement scheme, to be managed and delivered by Northgate Public Services (in partnership with Family Fund Trading and Wrexham County Borough Council), will be in place by 1 April 2013. In addition to the reduction in funding, there is likely to be an increase in applications because of reductions in household incomes and/or potential budgeting problems associated with monthly benefit payments. In 2011–12 there were nearly 114,000 applications to the discretionary elements of the Social Fund of which over 72,000 were granted. It is anticipated that applications could rise in the current year 2012–13 and in 2013–14 when the Welsh Government takes over responsibility for running the Social Fund.

While the settlement gives indicative allocations for financial years 2013–14 and 2014–15, there remains uncertainty about whether the consequential funding for the new welfare provision will end, or be reduced after the two-year commitment given. Clearly there



are implications for the Welsh Government in putting in place new welfare provision if no further settlement is provided for 2015–16 onwards. The Welsh Government has sought further clarification on continued resourcing and how this will be calculated.

- **Crime** – As benefit income falls, there is a possibility that people will look to other sources of income. This may increase the rate of acquisitive crime and illegal lending. Indeed, research by Machin and Marie (2006) suggests that benefit cuts and sanctions in JSA in the 1990s shifted people off the benefit system leading to reduced income and increased crime rates. Although research by Griggs and Evans (2010) has shown that the enforcement of conditionality and sanctions can have a positive effect on short-term outcomes, such as increasing employment rates, they also found that they can result in poor-quality employment and impact unfavourably on crime rates. Other research in the US also found that in the short-term at least, drug users who lost entitlement to benefits through failing to comply with the new regime were more likely to return to drug-related crime to fund their drug use (Montoya and Atkinson, 2002; Swartz et al., 2004). However, it is worth mentioning that no ‘recession effect’ on crime has been detected and crime rates in Wales have fallen spectacularly over the past year, particularly in Gwent and South Wales.

Other research by Foley (2009) investigated the timing and frequency of welfare payments on the level of crime, which is of interest given that UC will be paid monthly replacing mainly fortnightly payments. This found that criminal activity (particularly with a direct financial motivation, e.g. burglary) was increasing in the amount of time that had passed since welfare payments occurred. This suggests that there may be some scenarios where welfare-related income is consumed too quickly and there may then be attempts to supplement it with criminal income.

Homelessness (potentially caused by rent arrears due to HB changes) is also a risk factor for crime. However, it is very difficult to assess/predict these impacts (see DWP, 2010b).

- **Antisocial behaviour** – There may be community cohesion issues from an increase in overcrowded and substandard housing, migration of low-income households to already deprived areas, and also evictions. For example, there may be associated tensions arising from antisocial behaviour, noise, nuisance, vacant



properties (which may be a fire and vandalism risk), and quality of life in affected areas. Social unrest/protests may arise as people refuse to pay council tax (as seen with the Community Charge that preceded CTB).

- **Domestic abuse** – There may be issues regarding the payment of UC for a couple claim as (in the majority of instances) this will be made as a single payment to one household member only. DWP (2012h) note that the UC payment will be made to an account nominated by household members (e.g. one partner's account or a joint account). If an agreement cannot be reached, a final decision on how UC will be paid will be made by the Secretary of State. Charities such as Oxfam have raised concerns that the UC payment is likely to be made to the male member of the couple. Evidence by Sharp (2008) and Westaway and McKay (2007) suggests that this is a particular concern for women in households where domestic abuse is present. The household payment may make it more difficult for domestic abuse victims to have access to benefits/money for themselves, increasing dependence and making it harder to leave a violent partner. Research by Rotik and Perry (2011) also indicates that service users are concerned that joint payments would be unworkable for households where domestic violence is present. However, DWP (2012h) have confirmed that in exceptional circumstances, UC payment can be split. Further detail is awaited on this. Impacts on domestic violence may be further exacerbated by cuts to benefits and funds (e.g. Social Fund), which are often regarded as crucial in enabling domestic abuse victims to escape from violent relationships (especially as they are able to make a claim in their own right). The physical and psychological effects on victims of domestic violence may also hinder their entrance into or ability to remain in the labour market.
- **Digital inclusion** – A key component of UC will be the use of online claiming from April 2013, with the aspiration that 80 per cent of transactions will be conducted digitally. By April 2011, 20 months after the option became available, only 17 per cent of new claims for JSA were made online (House of Commons Public Accounts Committee, 2011). There will be significant challenges to get the digitally excluded to move to online claiming. These people will need assistance to help them move channels. The fact that in 2012 a quarter of Welsh adults did not regularly use the internet (National Survey for Wales, 2012) highlights the potential scale of the challenge. Furthermore, just

under half of the benefit claimants surveyed by Trinh and Ginnis (2012) said that they would need support to use the benefits service online<sup>76</sup>. Data published by the Office for National Statistics (2012) and research such as that by Dutton and Helsper (2007) show that the rate of internet usage decreases in line with income. Similarly, the National Survey for Wales (2012) found that a higher proportion of households living in the most deprived areas of Wales did not have access to the internet compared to households living in less deprived areas. In addition, location, in terms of the rural nature of the area and also service user characteristics appear important in determining the probability of digital exclusion (Low Incomes Tax Reform Group of the Chartered Institute of Taxation, 2012a; Adam et al., 2011). There will be some people that will never be able to self-serve through digital channels, so there will always be a need for alternative channels including face-to-face and telephony. DWP (2012h, 2012m) have noted that for those people who are unable to make claims online (e.g. some ESA and PIP claimants), alternative access routes will be offered, predominantly by phone but also face-to-face for claimants on a needs basis.

As well as identifying claimants that are not able or willing to manage their UC claim online, it is fundamental that frontline staff delivering UC are confident using the internet and are capable of guiding claimants through the channel shift (Finn and Tarr, 2012). Research by Adam et al. (2012) for DWP suggests Jobcentre Plus staff have varying levels of understanding and confidence using PCs, online services and a range of digital platforms.

- **Third sector** – The third sector is also experiencing a rise in demand for advice due to the welfare reform changes. It further anticipates an increase in demand for support as people lose benefit income. While the impact here would be on third sector organisations themselves, there is the potential for this to create demands on the public sector to at least refocus its support for the third sector.

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<sup>76</sup> Four thousand two hundred and seventy-three individuals responded to this survey question with 1,879 (around 45 per cent) stating that they would need help/support to use the benefits and tax service online.

## Positive

- **Employment** – If the welfare reforms are successful in getting more people into work, this may lead to reduced levels of poverty (and associated health and education improvements), less crime and increased community cohesion.
- **Digital inclusion** – The move to online claiming for UC presents opportunities as well as challenges. It will be a major driver to get people to use the internet for the first time, which could then lead to people recognising and taking advantage of the vast benefits that the internet can offer, whether it's searching and applying for jobs online, accessing cheaper goods and services, helping to reduce isolation or easier and better access to other public services.

## Local government

### Key reforms:

- UC
- successor arrangements for CTB
- HB.

### Potential impacts

Although the majority of the impacts discussed in this paper are cross-cutting in that they are likely to impact on the Welsh Government and local government, particular impacts likely to be experienced by the latter are outlined below. As noted in the Stage 1 analysis, these impacts at a local level are expected to disproportionately affect the South Wales Valleys and the inner city areas of Cardiff, Newport and Swansea given their relatively high rates of benefit claimants.

**Distributional impact** – The majority of local government funding goes through the Revenue Support Grant (RSG), which has a 27 per cent weighting based on factors reflecting deprivation. Therefore, more deprived authorities will receive a greater share of total funding arising from a shift in the indicators of deprivation. Furthermore, there are a range of other resource allocations (e.g. Pupil Deprivation Grant) that are targeted and influenced not only by the circumstances of the population but also the data from the benefits system which feeds into the Welsh Index of Multiple Deprivation. Crawford and Phillips (2012) also report that local government spending is generally higher in poorer areas reflecting the higher levels of need of those in poverty.

## Negative

- There may be increased demand for services including the following.
  - **Welfare rights and information** – Information and advice about the benefit changes and the possible effects on recipients will need to be provided. LAs will incur costs for changing publicity materials and claim forms, and delivering training on the changes to assessment officers. Research has highlighted the importance of clear communication for claimants, especially when service delivery channels are changed substantially (Finn et al., 2008). There may be an additional number of queries and appeals from affected claimants (particularly in relation to HB and the successor to CTB). A survey by Beatty et al. (2012), which was undertaken in 19 case study areas in GB, including three in Wales, suggests that awareness of the changes to housing support remains low, with 93 per cent knowing not very much or nothing at all about the changes that will affect them. Ipsos Mori and the Cambridge Centre for Housing and Planning Research (2013) also found that more than half (57 per cent) of the housing associations they surveyed in England (232) believe that their tenants know hardly anything or nothing at all about the benefit changes. However, nearly all Welsh LAs are running projects (funded by the Welsh Government's homelessness grant) which aim to minimise the impact of HB reform. In developing these projects (which received funding around August–September 2011), LAs were encouraged to tailor them to local circumstances. A significant element in the approach for most LAs has been to raise awareness of welfare reform among landlords, tenants and partner organisations, through a range of methods, including presentations, direct mailings, leaflets and web-based information. Support will need to be available to claimants to encourage take-up and ensure that they are claiming the maximum amount of benefits that they are entitled to. However, there may be issues regarding information sharing and access to DWP benefit information following the removal of the local HB role. There is a LA data sharing programme underway to minimise this issue.
  - **Support with new online claiming procedures** – A key component of UC will be the use of online claiming. Clearly, there will be challenges regarding access to broadband services (which may place pressure on libraries and

one-stop shops with PC access), digital illiteracy, the needs of older people, and the likely subsequent pressure on advisory services.

- **Money and debt advice** – The removal of, or cuts to, benefits may result in claimants struggling to cope with everyday living costs, with some forced to turn to high-cost lenders to borrow money due to a lack of access to affordable finance. This may subsequently lead to higher levels of unmanageable debt and demand for advisory services. LAs will be expected to provide information on access to financial services for people on low incomes (e.g. credit unions).
- **Budgeting support** – Families will also have to deal with the new budgeting challenge of the direct, monthly payment of benefits, which is intended to closely reflect the frequency of payment of wages. However, Ogus et al. (2002) found that among low earners (annual income less than £10,000) 49 per cent are not paid on a monthly basis. Furthermore, research by Trinh and Ginnis (2012) reports that only 29 per cent of surveyed benefit claimants (or 866 respondents) that budget regularly (2,986 respondents) do so on a monthly basis. Forty-two per cent of all claimants (or 1,797 respondents) said that monthly payments would make it harder for them to budget, with the main concern being that they would run out of money by the end of the month. These concerns and unintended consequences of monthly payments are also evidenced in research undertaken by Rotik and Perry (2011, 2012) for DWP and Keohane and Shorthouse (2012). However, DWP (2012h) note that personal budgeting support will be available to claimants and will include a mix of budgeting advice services (delivered across all channels) and financial products. For a minority of claimants, alternative payments arrangements, such as more frequent payments, will also be offered. However, these will be time-limited.
- **Debt recovery and eviction** – LAs' debt collection costs may increase, along with the number of evictions. The legal costs of securing eviction may place particular pressure on housing department budgets.
- **Support to help people back into work** – Given that one of the main aims of the UK Government's welfare reforms is to get people back into work, it is likely that this will put increased pressure on advisory services that support people into employment. For example, there may be an increase in requests for advice on employment and training schemes (e.g. Jobs Growth Wales), and other types of help available.

- **Scrutiny, assessment, and verification of applications for benefits** (e.g. passported benefits) – For example, changes to Blue Badge eligibility may result in increased applications to LAs under discretionary criteria. With regards to FSM, the Welsh Government has made available to all LAs in Wales an online electronic eligibility checking system. This system will need to be updated to reflect the new eligibility criteria under UC. LAs will need to be familiar with these changes. In addition, while LAs will not have a role in the delivery of PIP, there may be an increased demand for assessment and support services from those who are no longer eligible for support.
  - **Increased applications for DHP** – To help make up shortfalls between rent and HB.
- The above budgetary pressures will mean that LAs will have less money to spend on other services and/or they may have to increase rates such as Council Tax to offset these pressures. However, depending on how the replacement council tax support scheme operates, there may be a vicious circle where increases to council tax results in increases in council tax support costs. This is in addition to political issues arising from council tax rises. As a result, this is likely to place financial pressure on the budgets of precepting authorities in Wales, including community councils and police authorities. In the case of the police, there are potential increases in crime and disorder (although cuts to Home Office funding are a bigger influence on their budget). For community councils, it is not thought that the welfare reforms will have a significant impact on their budgets. The biggest potential impact is through unitary authorities withdrawing certain services and expecting community councils to fill the gap. As these will be discretionary services, such as grass cutting and such like, it is difficult to tell at this stage if this will result in any significant impacts.
  - The UK Government is localising the responsibility for assisting people with their council tax. They are also cutting CTB funding by 10 per cent and transferring it from Annually Managed Expenditure (AME) to Departmental Expenditure Limits (DEL). In 2013–14, the Welsh Government will make up the shortfall in this funding, by providing £22 million additional funding to LAs so that they can provide support to ensure that those people eligible for council tax support in Wales continue to

receive their full entitlement. One of the key impacts for both the Welsh Government and LAs will be to develop and administer a successor scheme for CTB for 2014–15 onwards. As with the Social Fund, there may be an increase in the need for council tax support given the economic climate and wider welfare cuts. In addition, as noted by Adam and Browne (2012), LAs in Wales will receive fixed cash grants from the Welsh Government under the new system rather than having their actual spending on council tax support reimbursed. This will have two key implications. Firstly, LAs will face the financial risk of unexpectedly high (or low) demand, which would make them more reliant on their reserves to cover contingencies. Secondly, it will also give them an incentive to reduce the cost of rebates. This could lead to desirable effects such as promoting employment and growth in the local economy and strengthening incentives to reduce fraud and error. However, it could also reduce their incentive to raise council tax rates and invest in low-value housing development, discourage low-income families from living in the area, and/or do less to encourage take-up of support.

- LAs will also incur the cost of modifications to IT systems to reflect new benefit entitlement criteria and devolved schemes (e.g. successor arrangements to CTB), which will need to be made within short timescales. They will also need to consider the provision of training to ensure that staff are fully knowledgeable of the benefit changes and new software. In addition, there will be costs associated with publicising the successor scheme to CTB.
- LAs will face direct operational consequences. For example, LAs will cease to pay HB when UC is fully rolled out by 2017. This is likely to lead to a reduction in benefit teams who have previously administered HB, or a changing role for those teams. Unison (2010) estimate that this will affect around 20,000 HB staff in administrative, anti-fraud, and other roles in the UK. However, until UC is introduced, LAs will take on the new role of enforcing the Household Benefit Cap through HB deductions. At this stage, it is not yet clear what role LAs will have in administering UC, although it is expected that they will still have a role to play in providing face-to-face services for those claimants unable to manage their UC claim electronically. However, Unison (2010) have raised concerns that the potential reduced role of LAs will negatively affect service users, as experienced LA staff with local knowledge and expertise may no longer provide frontline services.



- Low rent areas may encounter increased pressure on services and budgets if significant numbers move to such areas, particularly due to cuts in HB and the successor to CTB.
- Passported services provided by LAs will be affected by the transition to UC because entitlement to legacy benefits (e.g. HB) is generally used as a flag to indicate eligibility to locally administered benefits.
- Loss of income may lead to higher numbers of households being eligible for LA financial assistance, in areas such as social care, and arrears in areas such as council tax. This will increase the pressure on LAs' budgets as Central Government grants for council tax support will be fixed at the beginning of the year and no longer demand-led.
- There will be an impact on the Local Government Finance Settlement, which is based on measures of deprivation linked to legacy and passported benefits (e.g. FSM). Therefore, the introduction of UC will have significant impacts on the data that feeds into this settlement model in terms of its structure and numbers of claimants.

### Positive

- The DWP, Local Government Association, Welsh Local Government Association (WLGA) and Convention of Scottish Local Authorities (COSLA) are currently running 12 LA-led pilots (including two in Wales – Newport and Caerphilly). These will help to shape and influence the development of UC and the way in which LAs can contribute to the face-to-face delivery model that will complement the standard digital system. The pilots will also help to identify and overcome any issues encountered before the national roll-out of UC. The pilots will run from late 2012 through to 2013.
- As mentioned above, under the CTB replacement scheme, LAs in Wales will receive fixed cash grants from the Welsh Government rather than having their actual spending on council tax support reimbursed. This could lead to desirable effects such as promoting employment and growth in the local economy and will strengthen incentives to reduce fraud and error.

## Conclusions and next steps

### Conclusions

This report has focused on estimating the direct impact of the main welfare reforms on household incomes in Wales and has identified potential wider economic and social effects, and implications for public services in Wales. The remainder of the Stage 2 research, undertaken by Adam and Phillips (2013), has focused on providing an *ex-ante* analysis of the welfare reforms on labour supply in Wales.

Notwithstanding the impacts of the remaining welfare reforms, the benefit/tax credit changes that are estimated to have the greatest direct negative impact on incomes (at a household and Wales level) and numbers affected are outlined below.

At a Wales level, the welfare reforms that are estimated to lead to the largest income losses are:

- the switch to up-rating most benefits by CPI rather than RPI
- the 1 per cent cap on most working-age benefits, certain elements of tax credits, and CB
- loss of entitlement to DLA
- the time-limiting policy for contributory ESA.

At an individual/household level, the greatest weekly losses are likely to be due to:

- loss of entitlement to DLA
- the increase in the working hours requirement for WTC for couples with children
- the Household Benefit Cap
- the time-limiting policy for contributory ESA.

Furthermore, some benefit claimants/tax credit recipients are likely to be affected by multiple policy changes.

The reforms expected to affect a significant number of benefit claimants/tax credit recipients in Wales are:

- freezing CB rates
- the switch to up-rating most benefits by CPI rather than RPI
- the 1 per cent cap on most working-age benefits, certain elements of tax credits, and CB
- UC.

In terms of timing, some of the above policy changes have already been introduced. For example, the switch in indexation to CPI and the freezing of CB rates both took effect from 2011–12, while the time-limiting policy for contributory ESA and the increase in the working hours requirement for WTC for couples with children were implemented the following year, 2012–13. The remaining changes will have an impact on households in Wales from 2013–14 (i.e. 1 per cent cap on most working-age benefits, certain elements of tax credits, and CB; the Household Benefit Cap; and UC).

Although significantly offset by the income losses estimated from the welfare cuts, overall UC is expected to lead to a small net giveaway.

The analysis in Section 1 of this report provides an indication of the number of claimants that could potentially be affected by **each** of the main reforms and the estimated direct income losses in Wales. The analysis is not intended to provide an **aggregate** figure of the loss to household incomes in Wales as a result of the cumulative impact of the reforms. However, as part of the externally commissioned Stage 2 research, Adam and Phillips (2013) have assessed the aggregate impact of the majority of the welfare reforms announced before December's Autumn Statement on household incomes in Wales and estimate that there will be a direct loss of income of around £590 million in 2014–15. This equates to around £7.26 per family per week on average, roughly 1.5 per cent of their net income. The biggest average losses are experienced by low–middle income households and non-working families with children. Pensioners, and families without children in which all adults work, are largely protected from the welfare cuts. Furthermore, analysis by Crawford, Joyce and Phillips (2012) suggests that the benefit cuts will hit Wales slightly harder than the UK as a whole due to its higher levels of welfare dependency.

For those whose income is affected by the welfare reforms, there may be subsequent changes in spending and wider knock-on effects for the economy. For example, less money in people's pockets means that they buy less goods and services, the firms producing those then employ fewer people, leaving those people with less money to spend, and so on. Fiscal multipliers measure the short-run impact of a change in spending on benefits and tax credits on the size of the economy. Adam and Phillips (2013) note that the OBR multiplier for changes in welfare spending (around the size of the UK coalition government's cuts, i.e. 1 per cent of GDP) is 0.6, although, some evidence suggests that multiplier effects may be larger during periods of economic weakness. However, if the welfare

reforms are successful in increasing employment, in the long run, this may lead to increases in economic output.

It is important to consider such changes in behaviour that may arise in response to the welfare reforms, as the overall effect on incomes will depend on these decisions. Adam and Phillips (2013) have analysed effects on individuals' choices over whether and how much to work. The results of their modelling, which has been undertaken at a Wales level, suggests that the impact of the changes in financial work incentives on employment and hours of work will be fairly modest. Their central estimate is for employment to increase by around 5,000 (or 0.3 percentage points), for aggregate hours of work to increase by around 1 per cent, and for aggregate earnings to increase by £149 million (or 0.5 per cent). However, there remains significant uncertainty about the precise impact of the reforms in aggregate on employment, hours of work and earnings in Wales because there are several aspects which are difficult to model (e.g. changes in non-financial work incentives such as the simplification associated with UC and the extension of work search requirements to more people in order to receive benefits, and also weak labour demand).

Although there may be some positive offsetting impacts from an increase in employment, it is clear that changes to the benefit system are set to reduce the disposable incomes of households substantially in the next few years. However, not all types of households will be hit equally hard: those with children and, at least until UC is substantially rolled out, those towards the bottom of the income distribution, see their incomes fall by a larger percentage as a result of reforms than other types of households. These are groups that are already more likely to rely on public services (e.g. schools and social services), and reductions in income may increase the importance of such services to them. Although reform of welfare benefits is a non-devolved matter, some measures may impact on devolved services that are delivered by the Welsh Government and LAs.

It is difficult to quantify the knock-on impacts on the demand for devolved public services in Wales, partly because there is a lot of uncertainty surrounding such impacts; however, a qualitative assessment identifying potential impacts that may arise has been undertaken.

The impacts are likely to be wide-ranging, with possible impacts identified for all of the public service areas analysed. These include: health, social care, housing, education and training, economic development, communities and social justice, and local government.

Both negative and positive impacts have been identified; however, the former appear to outweigh the latter. Cross-cutting negative impacts are likely to include: a reduction or loss of benefit income (and/or passported benefits) due to tighter eligibility criteria, stricter medical assessments, conditionality requirements and tougher sanctions; appeals and reassessments; budgeting problems associated with direct, monthly benefit payments; increased poverty levels; the migration of claimants into cheaper and possibly poorer-quality and overcrowded housing; less financial support available at a time of increasing demand (e.g. Social Fund and ILF); crime; antisocial behaviour; domestic abuse; issues with digital claiming; and, increased demand for debt/welfare advice. Positive impacts mainly relate to improved work incentives and increased employment and earnings.

The findings from the Stage 2 research have built on those identified at Stage 1. Both sets of findings will be used by the Welsh Government to help target its efforts to mitigate (where possible) any negative implications of welfare reform, and to continue to prioritise resources to reduce poverty in Wales. Also, the Welsh Government will use any evidence that becomes available on the early impacts of those reforms that have already been implemented or are due to be implemented shortly.

## **Next steps**

The Welsh Government's plans for the next stage of the research programme (which will commence in February 2013) are to:

- analyse the evidence on the potential impacts of the welfare reforms on those with protected characteristics (e.g. gender, ethnic minority people, disabled people, and age) in Wales. Expected publication date: July 2013
- assess further the impact of the welfare reforms at an LA level. Expected publication date: January 2014
- estimate the impact of specific welfare reforms in Wales, e.g. UC, the Work Programme, and the Housing Benefit reforms. Expected publication date: June 2014 (UC); October 2014 (Work Programme). Timescales for the research on the impact of the Housing Benefit reforms will be considered closer to the time.

## **Knowledge and Analytical Services February 2013**

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## Annex: Distributional impact of public services

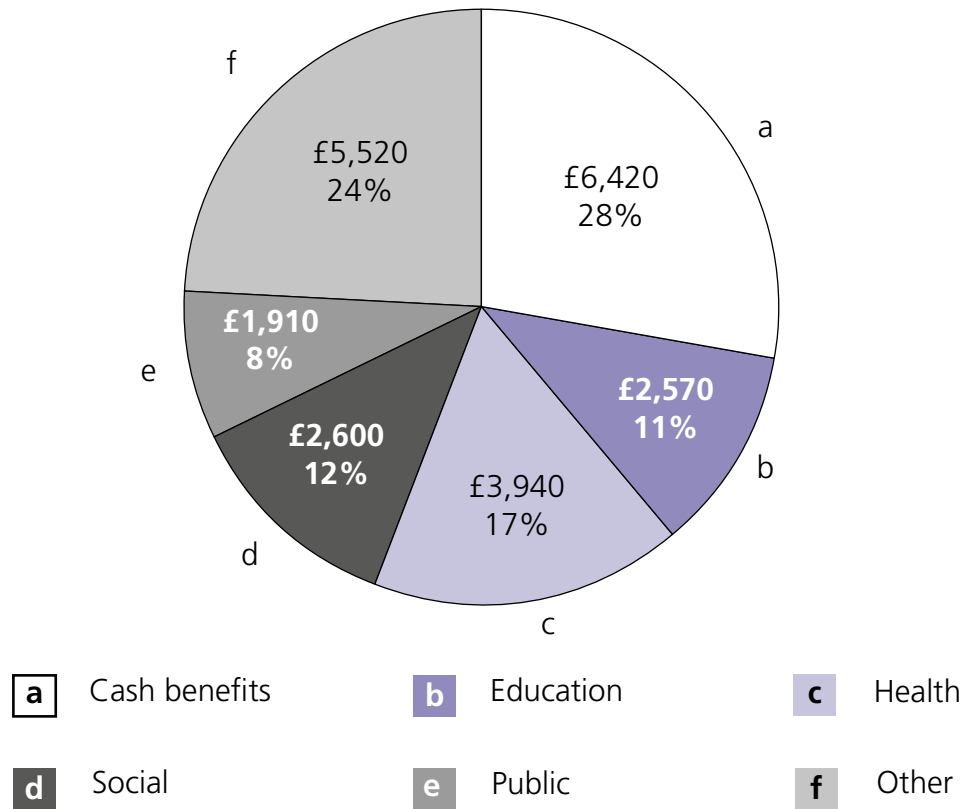
| Likely distributional effect<br>(1 = very progressive,<br>6 = regressive) | Service                    |
|---|----------------------------|
| <b>1</b>  | HB admin                   |
|   | Homelessness               |
|   | Children's social care     |
|   | Housing (General Fund)     |
|   | Police                     |
| <b>2</b>  | Crime and community safety |
|   | Older people               |
|   | Other adult social care    |
|   | Adult social care          |
|   | Fire and rescue            |
|   | Other education            |
|   | Primary education          |
|   | Public transport (bus)     |
|   | Special education          |
| <b>3</b>  | Concessionary fares        |
|   | Libraries                  |
|   | Secondary education        |
|   | Youth, careers             |
|   | Work-based training        |
|   | Hospital in/out-patient    |

| Likely distributional effect<br>(1 = very progressive,<br>6 = regressive) | Service                   |
|---|---------------------------|
| 4   | Community development     |
|   | Primary healthcare        |
|   | Economic development      |
|   | Early years/pre-school    |
|   | Environmental health      |
|   | Street cleansing          |
|   | Trading standards         |
|   | Waste collection          |
| 5   | Play                      |
|   | Further education         |
|   | Parks                     |
|   | Recreation and sport      |
|   | Road maintenance          |
|   | Street lighting           |
|   | Tourism                   |
|   | Traffic management        |
| 6   | Adult/community education |
|   | Other arts and culture    |
|   | Planning                  |

Source: Bramley et al. (2005) *Mainstream Public Services and their Impact on Neighbourhood Deprivation*. Neighbourhood Renewal Unit (Office of the Deputy Prime Minister) with terminology amended.

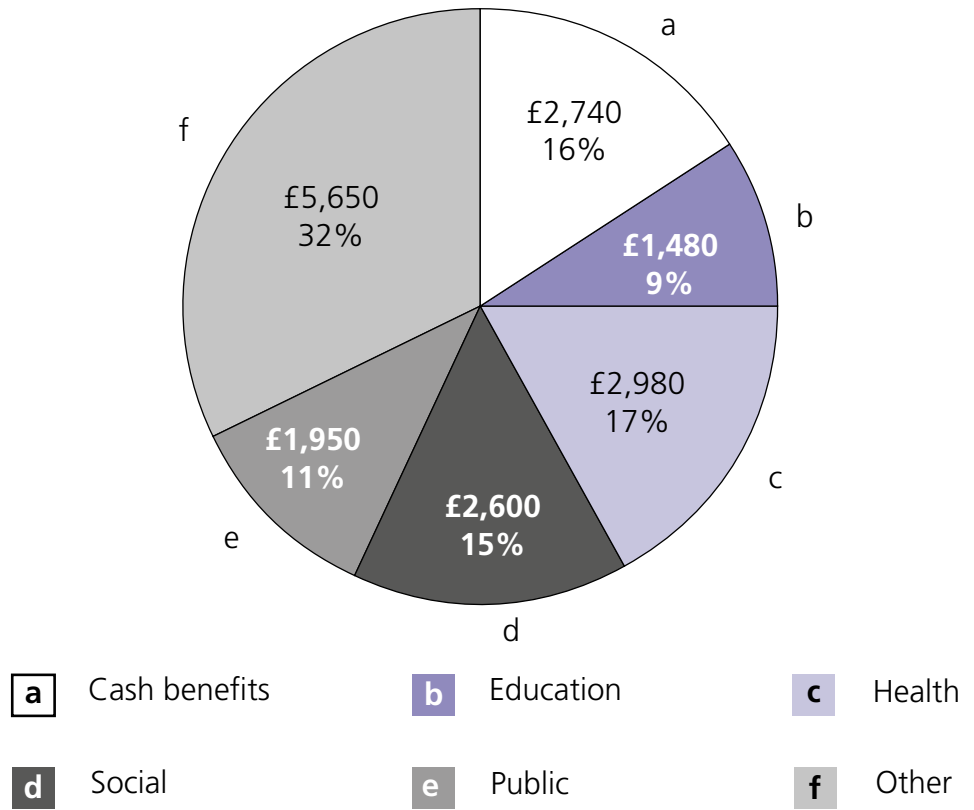
**Figure 1: Distribution of benefits received, £ per annum per household, 2006–07**

(a) Bottom half of the distribution



Source: Volterra (2009) *The Fiscal Landscape: Understanding Contributions and Benefits*

(b) Top half of the distribution



Source: Volterra (2009) *The Fiscal Landscape: Understanding Contributions and Benefits*